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THE SOCIAL UNREST









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PROMINENT MEMBERS OF THE NATIONAL INDUSTRIAL CONFERENCE WHICH MET AT WASHINGTON ON CALL OF PRESIDENT WILSON IN OCTOBER, 1919.

(From left to right: Secretary Lane, who presided; Judge Gary; Mr. Samuel Gompers; Mr. Frank Morrison, secretary of the American Federation of Labor; and Mr. John D. Rockefeller, Jr.)



# The SOCIAL UNREST

*CAPITAL, LABOR, AND THE  
PUBLIC IN TURMOIL*

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IN TWO VOLUMES

EDITED BY  
LYMAN P. POWELL, D.D., LL.D.

VOLUME I

+

THE REVIEW OF REVIEWS COMPANY  
NEW YORK

THE  
YOUNG  
MAN OF  
THE FUTURE

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## INTRODUCTION

The world is in turmoil. The old order is gone. The new order seems to be approaching, but is not yet here. Men's hearts are failing them for fear. To many it appears that we are

“Wandering between two worlds,—one dead,  
The other powerless to be born.”

Duty fortunately is both clear and imperative. This is no time for pessimism. Faintheartedness is neither necessary nor becoming. Faith in the outcome of this cosmic travail need suffer no eclipse. All will yet be well. “In quietness and confidence shall be thy strength.”

But to trust unfaltering, men must add the discerning and the thoughtful mind. They must think through the complications and details of these anxious days. Many-sided comprehension is inexorably necessary. To neglect any significant factor, any possibly determining circumstance, may easily invalidate conclusions drawn with the utmost honesty. All important phenomena — economic, industrial, social — must be weighed with care.

Never as to-day has the public press so faithfully fulfilled its mission to spread out before its readers the news they ought to have. Never has responsibility been so keenly



realized. The very mass of news, however, dulls perception and blocks judgment. Elimination, classification, intelligent comment are first needed.

This series, even at the risk of seeming too ambitious, attempts to render such a service to the average American. Having spent the last two years in travelling round and round the country, observing and making notes, speaking and writing, the editor is convinced that the one hundred million and more Americans, whom the Lord must love or He would not have made so many of them, can be trusted to think straight and think right if without fear or favor some of the representative thought materials of this time that tries men's souls are set before them in due order. By its success or failure in achieving this high purpose the series should be judged.

With men like Professor John B. Clark, of Columbia, insisting that economic laws must receive close attention and with some colleges and universities possibly approaching the complicated situation from a conventional point of view, such a series would not challenge the interest of certain influential thinkers if it failed to reckon with economic laws and economic reasoning.

With numerous publicists agreeing with the Honorable W. L. Mackenzie King, the new leader of the Liberal party in Canada and one of the foremost experts of the world in diagnosis of the industrial dislocations of the time, to eliminate from consideration practically all but the underlying

causes of industrial unrest, the evolution of industrial phenomena, the functions of the respective parties to industry, and the essential features of the industrial processes in use on either side of the ocean, it is evident that the discussion must roam farther afield than some economists have in the past conducted it.

One has only to call attention to the vast researches of the Industrial Relations Commission at Washington and the Reports of the Organization on Labor Legislation, to the output every month of the *Labor Review* issued by the Department of Labor under the direction of Commissioner Roy Meeker of the Bureau of Labor Statistics, to the wealth of contemporaneous reflection in such journals as the *Political Science Quarterly* and the *Annals of the American Academy*, and to the researches of the Rockefeller, Sage and Carnegie Foundations to illustrate and confirm Mr. King's thesis.

Besides this, there are some eminent writers in this country and in Europe who have made such headway in constructive thinking over the whole economic and industrial world that they have passed out of the range of the older economics into full accord — to quote Dr. Albert Shaw — “with a spirit derived from a broader science of human society than that which was understood by Ricardo or Malthus or even John Stuart Mill.”

When an educated capitalist, like Mr. John D. Rockefeller, Jr., and a conspicuous leader of labor, like Mr. Samuel Gompers, seem to be on the way to agreement that Capital,

Management, Labor and the Public are equal factors in industrial activity, perhaps this series may place before the American people for their guidance in drawing conclusions many facts and considerations not as yet found in entirety elsewhere and bearing directly on the complexities that puzzle and the anxieties that bewilder.

“Who is sufficient for these things?” Nobody. But by a discriminating selection from utterances in many fields concerned, by giving place to conservative and liberal alike to speak what he knows or thinks he knows, by keeping in mind in the development of the series a constructive purpose which will save from any break with the past, it should be possible, with the assistance of representative economists, publicists, statesmen and world leaders to lay before the readers of these books the materials which will enable them to discriminate between merely economic and nobly moral values, between the letter which killeth and the spirit which giveth life.

War, industrial and military, may thus be made impossible. The standard, both of work and health may be raised. That “sure road to industrial peace and order in democracies,” of which President Eliot loves to speak, may be found, and humanity after its recent agony of Gethsemane and its crucifixion on the cross of militarism, may have its resurrection in that more abundant life of which poets have dreamed and for which saints have prayed.

LYMAN P. POWELL.



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# SOCIAL UNREST

## I

### THE HUMANIZING OF THE OLD

ALBERT SHAW

Life has presented itself for a number of generations past to the great majority of people in Europe and America from the economic standpoint. To understand the course of things, we have to revert to the feudal period and to note the processes of change since feudalism began to break down. The economic emancipation of the ordinary man has been the central theme in the great epic of the past two centuries. Food, clothing, shelter, sickness and health, the constant menace of poverty,—these have been the matters that have most concerned the largest numbers of people in modern times.

Political history has indeed been associated in many ways and at many points with economic history; but the connection has not at all points or at all moments been direct and vital. Even when political power by degrees moved down to a level where it could be grasped by the common man, he seldom knew how to use it to his own immediate advantage.



There were conditions existing, let us say, a hundred years ago, that went far to justify the theories of what we are accustomed to call the "orthodox" political economy. The great majority seemed to be absorbed in an incessant struggle for existence. The motive that controlled occidental mankind — on the plane of the masses — was fear of hunger or dread of an ever-menacing status of pauperism. The wolf was always at the door. Even on the higher plane, the controlling motive was said to be "enlightened self-interest," as against the unenlightened kind that impelled the wage-earners. The workers carried on the struggle subject to what was known as the "iron law of wages," which meant a minimum wage based upon the lowest amount that would provide for the subsistence of the worker and the maintenance of a working class.

All the economic processes were subject to the "law of supply and demand." Labor was a commodity to be bought in the cheapest market; and the labor of women and children was to be employed as a check upon the tendency of men's wages to resist the "iron law." Steam power and rail transportation had destroyed the old guilds of handicraftsmen; and the factory system had arisen, along with its concomitant of the overcrowded modern industrial town.

It is true then that the political economy of Adam Smith, and of his successors for half a century, was not far wrong in the fundamental assumption that the ordinary man was to be regarded as an economic instrument, impelled by the

supreme necessity of earning his living under competitive conditions. In earlier industry, the capitalist had played a relatively small part. There was no gulf between the master and his journeymen; they all worked together, and their skill was a more important matter than the investment in the tools of their trade. But with the massing of power-driven machinery in factories, and with the new kinds of trade created by railways and steamships, capital became a thing of supreme importance,—a thing so dominant that the economic society which it governed was more essential and vital than the society of politics or that of organized religion.

When the historian of the future looks at realities through the perspective of clearer skies, he will discover the great part played by the forces of Capital in the shaping of human society through the Nineteenth Century; and he will declare that it was a hard part, under cold and repellent rules of conduct. Yet he will also find that it was upon the whole — this part played by capital — a thing of almost measureless beneficence in its results.

At the beginning of the Nineteenth Century almost everybody was poor because there was little wealth. It was not a question of distribution. There were a few great aristocrats with landed estates and with tenants and laborers living under surviving conditions resembling those of the feudal period. There were some prosperous merchants and ship-owners, and a very few rich money-lenders who were laying

foundations for modern banking success in the Napoleonic period. But almost everyone, in England, France and Germany, as well as in our young Republic of America, was obliged to live in a way that we should regard as indicating poverty.

It was the mission of Capital to create abundance. There could be no marked advance in the condition of the average man until the organization of facilities for producing and distributing supplies had vastly increased the output, as measured against the day's work. There came a time when capital itself became more abundant; when new capital competed with old capital; when better machinery doubled or quadrupled the efficiency of the worker; and when competing employers began to bid for labor just, as, previously, the laborers had competed with one another for jobs.

Then there emerged clearly the conception of advancement for the worker through a new kind of principle, to supersede the "Iron Law of Wages." The new principle could be stated in the phrase, "The Standard of Living." This expressed a certain hopeful growth in the complexity of the common man's interests. He was no longer merely the labor unit, exclusively impelled by the economic motive in the bare struggle for existence.

In those old days the factory workers had often been employed sixteen hours or more in the day; and this was true also of women and children. With the growth of labor efficiency came the determination to capture some of the

higher possibilities of life; and so came the movement for labor organization, for shorter hours, for better conditions.

The appalling death rates of factory towns grew less, as the conditions of work and life became steadily better. The ruthlessness of the capitalistic system was resulting in a vast increase in wealth; and nothing could prevent the lowering of the prices of commodities on the one hand, and the increase in wages on the other. Sooner or later, wealth was bound to go to those whose efforts had produced it; and this process of amelioration was to be the more rapid as the standards of life came to be affected by mental and moral influences.

And here we find the mitigations wrought by the development of religious and ethical motives, and by the uplifting value of democracy and popular education. Even without schools, the cheapness of printing would have disseminated the reading habit, especially in communities where, as in England and the United States, the influences of religion were all in the direction of mental freedom and wide intelligence.

Thus the life which at the beginning of the Nineteenth Century had so largely meant the struggle for existence, had constantly improved until the individual found new and complex interests growing out of his relationships with his fellows. In the making of America, there had been a high degree of individualism created in the sheer loneliness of the work of clearing the forests and settling the wilderness.

The average conditions were little removed from what we should now call poverty; that is to say, life was exceedingly toilsome, and its material rewards were scanty. But strong personality was often created under the conditions which made each man's struggle for existence so largely a grappling with the primitive forces of nature, rather than a competing for jobs as in the factory towns.

In America even more than in Europe for a long time it was the general belief that the economic organism should function of itself, running parallel with the political structure but with comparatively little contact and almost no merging. In the political field, the average man had prejudices or convictions which attached him to a party. He was not in the habit of thinking of political control as chiefly a thing to be exercised in the economic sphere. He thought of Government rather as a negative than a positive instrumentality.

In the local sense, after a time he became willing to provide for a universal system of common schools through exercise of the taxing power of the State. But in general the appeal to political authority as an agency through which to secure economic and social well-being was not in accordance with the American belief in private initiative. Nevertheless, as the Nineteenth Century advanced, we were constantly shifting ground as regards the relationships of Government to the welfare of the individual.



We had always conceded, for instance, the duty of the State to furnish protection in the exercise of police power. But society had discovered new enemies, and this meant vast new developments in the exercise of the protective function. It was one thing, at the beginning of the Nineteenth Century, to protect the townsman against burglars, and to keep the streets clear of rioters. It was a very different matter, at the end of the Century, to protect communities against the far more dangerous enemies that had been discovered in the microscopic organisms. Early in the Century the householder had dug his own well or drawn from the village pump. Later, the common water-supply became necessary; and there came into use all the administrative mechanisms, one following another, having to do with safeguards which the individual could not supply for himself against what science had now discovered to be preventable evils.

The applications by Government of these new remedies against ancient evils had immensely increased the efficiency of the individual. The average loss of labor through sickness was reduced; the average length of working years was much increased; enhanced capacity gave the reward of larger leisure, and of more opportunity for bringing into play the motives of the complex life.

Thus the ordinary man, who only a century earlier had been so much absorbed in the narrowly economic task of making a living, was now a member of human society with

a variety of relationships besides those involved in the processes upon which the orthodox economists had built up their so-called "dismal science."

Men's motives and points of view were shifting and changing, although they were not in the habit of recognizing the changes. Thus thousands of capitalists were no longer wholly dominated by the motive of securing the largest possible amount of the gross product as the employers' share. They were also thinking of business as a science and a profession, and as an opportunity for usefulness. The qualities of mind and spirit which had become dominant in them had unfitted them for the part that orthodox political economy would have demanded that they should play. They had become in that sense un-orthodox, while living fully in accord with a new spirit derived from a broader science of human society than that which was understood by Ricardo, or Malthus or even by John Stuart Mill.

The sphere of politics, furthermore, was becoming far more closely identified with the operations of the economic organism. The authority of law was being evoked to establish *standards*; as, for instance, the conditions affecting railway employment; the conditions affecting women and children in factories; compulsory education of children, in order that citizenship might be more intelligent in its quality, and so on.

The political authority was in many ways becoming the regulator of the industrial and economic life. It was not

in any large sense absorbing or superseding that mechanism. In some countries railway transportation had become governmentalized, and other functions had been assumed so that the State itself was to a considerable extent engaged in capitalistic production. And in some countries this had been particularly true of the local subdivisions of the State, where many services of supply had become municipalized. But in America the State was called upon to secure favorable conditions for social and economic progress, but not to assume the functions of the industrial employer.

In 1917, however, we entered upon a great conflict which required at once the services under arms of millions of young men, and also the services in shops and fields of millions more who must produce food and war supplies with direct reference to the one all-embracing, Government-managed enterprise of carrying on a modern war.

The whole system of economic life as it had previously existed now became subjected to tremendous displacements. The great essentials of industry,—such as coal, copper, iron ore, petroleum,—came under Government control, as did a very great part of all manufacturing industry. The prices of food and many commodities were publicly regulated; wage scales were adjusted by Government authority; and the daily life of one hundred million people was materially affected in its methods and its points of view, to such an extent that the changes were universally felt and recognized.

What was true in our own experience was true in some

of the European countries to an extent even more sweeping and profound. In the United States, almost 5,000,000 men were taken from their callings into the uniformed services of the army and navy. Life for them became subject to method and standard, and wholly non-competitive. They were fed, sheltered and clothed under terms of a large system; while their training and effort were directed to a common public end,—cooperative in the full sense. Most of these men have returned during the year 1919 to membership in the general community; but the effect of their experience under the unified and simple conditions of cooperation in great camps, must have influences of a modifying kind upon the course of American life in the future.

It became necessary to divert other millions into war industry, and to provide certain standards which perforce have entered into the consciousness of all those who have experienced them. These standards have not all been alike, but they have been based upon certain views or tendencies. Thus there was recognized, in spite of the emergency of war, the principles of human worth and dignity in respect to all the conditions surrounding industry. The Government could have conscripted shipbuilders and gunmakers, just as it drafted men for the training camp; and it could have held down expenditure by a policy of low wages and long hours. It decided, however, in the thick of war, to establish the rules of short hours, high wages, and — insofar as possible

— of comfortable housing and the safeguards of good sanitary and moral environment.

As an effect of this intense experience of war, many things were brought to the point of a definite decision where otherwise it might have required several decades before a like verdict could have been reached. Thus it was virtually decided that the larger highways and means of distribution and communication were to pass from the old sphere of competitive capitalistic exploitation to a status essentially public, with the principles of unity and cooperation substituted for those of diversity and competition.

Railways, waterways, the main highways for motorized traffic — these are all to be thrown into association with one another, for convenient and economical public service. The private capital which has created transportation systems is not to be confiscated, but what had been of necessity developed by private energy is, in the new era, to pass over in some form or other to the sphere of public control. I am not alluding to this difficult subject of the railways with the intention of supporting one solution or another of the immediate problems that are before us. I am merely pointing out great transitions in our economic life, as we pass from the old period through the war experiences to the new epoch upon which we are just beginning to enter.

One might easily yield to the temptation to theorize and to speculate, in discussing the social and economic as well



as the political trends that are destined to make these new conditions. That we must, henceforth, work out our own personal problems in this new atmosphere of society lends an added eagerness to our inquiries.

It is sometimes easier to understand our own conditions by turning away from things too near at hand, and too familiar for full comprehension, to those of some other community or country. In England, for example, the course of political and social progress through more than a hundred years has been comparatively easy to follow; and the tendencies to-day, as the war period closes and the new era begins, will undoubtedly teach us something of what lies in our own near future.

In England, the population itself is now, for the first time, recognized by the political and intellectual leaders as the country's principal asset. Human conservation is perceived as having the first claims upon statesmanship. Thus the educational system is to be transformed from its very foundations, under a new law that aims to throw as much care and protection around the ordinary child as the expert live-stock farmer would give to his most valuable animals.

This would seem to be an obvious enough conception, yet it is a new thing as a dominating motive in the legislation of a great country like England. Every child is to be brought under the protection of society as regards its opportunities for physical well-being as well as for mental and moral training. Heretofore, the correctives of medical or

surgical care,—the attention to defective eyes and other impairments,—have all been left to the volition of an untrained and ignorant parenthood. Henceforth the state is to meet this situation; and the new generation will be transformed in consequence. Furthermore, there is to be universal schooling, not on traditional plans, but of a new kind that is intended to fit each child for his place in the community in the sense of leading him into a useful vocation, and also in the sense of giving him his share in common tasks such as a democratic self-government, and in the rational enjoyments of life.

The health and efficiency of the whole nation, it is argued, are to be enhanced by the establishment of a national ministry of health as a cabinet department. The statesmanship of Great Britain has seen a new vision, furthermore, of the essential dignity of the family and the household. There is to be a standard set for human habitations. A half-million new houses are to be built as a mere beginning toward the rehousing of all the millions of people whose homes are not sanitary and are lacking in the number of rooms, the air capacity, and the lighting, that go with the requirements of decency that have at last been given recognition and acceptance.

There are to be standards in England having to do with the hours of labor and the conditions of employment. The movement for shorter hours has been making progress for many years, as everyone knows. As an outcome of the war

experience, the short-hour standards are to have not exceptional but universal application. The motive underlying this movement is not, as some people suppose, a discreditable one. It bears no relation to idleness or thriftlessness. Generally speaking, in all English industries or communities where short hours prevail, the effect is seen in a great variety of desirable directions. Workingmen's cottages are surrounded by neatly kept gardens of useful vegetables and bright flowers. Public libraries are well patronized, the newspapers are universally read, and the workingmen enter into the varied activities of a worthy kind that build up community life.

In the new conception of England that has been accepted by the leaders of all political parties, there is to be a great improvement and development of the nation's landed domain. Without any sacrifice of the beauty and charm of rural England as developed under the conditions of the past, there can be a transforming increase in agricultural production. This was shown under the stimulus of the war. Wholly new methods, however, are to be used to redeem and improve the land, and to make it profitable and pleasant for several times as many people to be engaged in rural pursuits as heretofore. Great projects are on foot, also, for improving town life; and there is to be an interchange of advantages so that what is best in the opportunities of the town may not be denied to the farm worker, while — on the principles of the "garden city" — the healthful satisfactions of coun-

try life may be more available for town-dwellers and industrial workers.

There is also evident in England a new conception of the relationships between the employing class and the working-man. In every possible way the young worker is to be trained and advanced. He is not to be kept down, but rather is to be encouraged to study and to make himself proficient, so that no needless barriers may lie between him and the functions of management and control. Shops and factories are to be not merely places where men work and earn wages, but are also to be scenes where young workmen may be taught and trained, and where their proper ambition may be kept alive.

I am hinting only at the applications which are to be given in England to this spirit of the new period. The returning soldier, if disabled in any way, finds ready for him a system of vocational instruction which is to lift him above dependency, and make him a valuable member of the working community.

The new principles, and the new laws in conformity with such conceptions, will not be found working like magic in all their parts from the very beginning. But they promise to bring about a transformation that would seem wellnigh incredible when compared with conditions that prevailed less than half a century ago. One reads of strikes and disorders; but these are only surface symptoms, the passing daily phenomena that mark some of the more immediate aspects

of the great transition. The thing that is coming to pass does not mean violence or disorder, but rather a greater social stability than has been known since the Middle Ages.

The trends that are so obvious in England are less easily discerned in our vast country, with its forty-eight states and its more diverse economic and political conditions. But in the last analysis the course of things will not be greatly dissimilar. The motives and objects of statesmanship will be directed increasingly towards the improvement of economic life and social conditions.

It is not my object to catalogue specific things, but to illustrate a tendency. We shall endeavor through wiser methods of education to make the individual more valuable to himself and more useful to society.

In the stress of the War Period, we were compelled to apply enormous resources of labor and materials to the requirements of the new kind of war. To obtain these resources quickly the Government had to use the instrument of credit on a vast scale, and to exercise its power of taxation as never before. Within a period measured by months, we obtained universal acceptance of methods of taxation which extreme socialistic theorists supposed we might apply perhaps a hundred years hence. Private wealth henceforth is at the service of the community without protest.

The economic motive on the part of capitalists and employers is undergoing an amazing modification. Individ-



uals in the future, relatively speaking, will be less wealthy; and the community, in the supply of common needs, will be more munificent. There will be private libraries, but they will not compare with those accessible to the public. There will be private picture galleries, but the best in art will be for the pleasure and instruction of everybody.

With the modification of motives on the part of the employing class, there is to come a corresponding acceptance of social responsibility by members of the working class. When all the opportunities of life are spread before them — when the great struggle for practical justice and equality is really won on the battlefield of the day's work, as it was won earlier in the struggle for political equality — we shall find a wholly new kind of conservatism growing up where once it was supposed that a reckless and destructive radicalism might bring menace to some of the best legacies of civilization.

In this new period, let us hope and believe, bread will be plentiful enough so that the common man may not have to feel that man lives by bread alone; that is to say, by the concentration of effort upon the securing of his livelihood. Science is to solve the problems of economic abundance, and no small part of the application of science is to be directed toward the mental and physical efficiency of the worker.

The dread of poverty is to be removed by those principles of social insurance to which we have already committed

ourselves on so large a scale in the War Risk Insurance provided for the soldiers. The new era is to justify enthusiasm and unselfishness, as in no former period.

The motive of "enlightened self-interest" may once have served a sound purpose in the creation of the modern instruments of production. But the citizen of the new era must prepare as definitely for the demands made upon him by his membership in society as for the demands of what used to be regarded as the dominating private concerns of life. He must work with his fellows, subordinate his private aims, and find a larger personal liberty as the outgrowth of a condition that lifts the masses of men into the enjoyments and enrichments which were once those of the privileged few.

## II

# WHAT THE OLD REALLY WAS

Our ancestors lived a mere animal existence. Each man was first for himself, then his family, then the tribe. Even as recently as 1776 Adam Smith wrote: "The only trades which it seems possible for a joint stock company to carry on successfully, without an exclusive privilege, are those of which all the operations are capable of being reduced to such uniformity as admits of little or no variation." It was in 1902 that "an employer and an employee who had sustained that relationship for seventeen years met for the first time" in a Chicago settlement. As recently as September, 1919, a rudimentary survival appeared of this primeval economic isolation when an Italian wage earner who had worked on the property of the same New York suburbanite regularly for five years was unable to give the name of his employer. The economic man is not a figment of imagination. He is simply the conventional business man who has — as Professor Seager points out — at least four distinguishing traits:

(1) The business man pursues his own interest in his business dealings and assumes that others will do the same. This does not mean that he is steeped in selfishness, but simply that from his point of view "business is business," not play nor philanthropy, and that he prefers to keep his getting separate and distinct from his giving.

(2) In judging of his own interest the business man

thinks of himself not as an isolated individual, but as a member of different social groups, of which the family is by far the most important. He works not for himself alone, but for his family, his church, his union, or club, and his country. In different relations and at different times he identifies his interest with the interests of these organizations. For his family the business man will sacrifice as much or more than he will for himself alone.

(3) He desires to be financially independent. His ambition is to stand on his own feet, to make his own way and, when he accepts assistance, to give an adequate return for it.

(4) He is controlled in his business dealings by the code of business morality that pertains to his class. As there is "honor even among thieves," so there are special standards that are accepted and lived up to by different business classes. These standards are not as high as would be desirable, but they are higher than current criticisms of business morality might lead one to think. To be maintained, however, in communities where class barriers are constantly giving way, such standards have often to be reinforced by legal enactments.

These four characteristics of the business, or economic, man are readily explained by reference to the evolutionary process which has brought industrial society to its present stage of development. Self-interest as a dominant motive, for example, is the direct fruit of that struggle for existence which is still in progress and which makes self-preservation

the first law of nature to every organic species. In the case of men, religious and other influences have tempered self-seeking with consideration for others, but it still plays the chief rôle in shaping human conduct.<sup>1</sup>

But self-interest involves struggle and in all the history of the world man has had to struggle for a living and to bring himself into harmony with his surroundings. Says Professor Carver:

The fact that there are human wants for whose satisfaction nature does not provide in sufficient abundance — in other words, the fact of scarcity — signifies that man is, to that extent at least, out of harmony with nature. The desire for fuel, for clothing, and for shelter grows out of the fact that the climate is more severe than our bodies are fitted to endure, and this alone argues a very considerable lack of harmony. The lack is only emphasized by the fact that it is necessary for us to labor and to endure in order to provide ourselves with these means of protecting our bodies against the rigors of nature. That labor also which is expended in the production of food means nothing if not that there are more mouths to be fed, in certain regions at least, than nature has herself provided for. She must therefore be subjugated and compelled to yield larger returns than she is willing to do of her own accord. And that expanding multitude of desires, of appetites, and of passions which drive us as with whips; which send us to the ends of the earth

<sup>1</sup> Henry R. Seager: "Economics," Briefer Course, p. 4.

after gewgaws with which to bedeck our bodies and after new means of tickling the five senses; which make us strive to outshine our neighbors, or at least not to be outshone by them — these even more than our normal wants show how widely we have fallen out of any natural harmony which may supposedly have existed in the past.

Viewed from this standpoint, the whole economic struggle becomes an effort to attain to a harmony which does not naturally exist. As is well known, the characteristic difference between the non-economizing animals, on the one hand, and man, the economizer, on the other, is that in the process of adaptation the animals are possibly adapted to their environment, whereas man assumes the active rôle in attempting to adapt his environment to himself. If the climate is cold, animals must develop fur or blubber, but man builds fires, constructs shelters, and manufactures clothing. If there are enemies to fight against, the animals must develop claws or fangs, horns or hoofs, whereas man makes bows and arrows, or guns and ammunition. The whole evolutionary process, both passive and active, both biological and economic, is a development away from less toward greater adaptation, from less toward greater harmony between the species and its environment.

That phase of the disharmony between man and nature which takes the form of scarcity gives rise also to a disharmony between man and man. Where there is scarcity there will be two men wanting the same thing; and where



two men want the same thing there is an antagonism of interests. Where there is an antagonism of interests between man and man there will be questions to be settled, questions of right and wrong, of justice and injustice; and these questions could not arise under any other condition. The antagonism of interests is, in other words, what gives rise to a moral problem, and it is, therefore, about the most fundamental fact in sociology and moral philosophy.<sup>2</sup>

But Mr. Hillquit sees only war in the economic world.

There is war between and among the classes. War, sometimes overt and violent, sometimes concealed and even unconscious, but war nevertheless. The war is all the more intense and irrepressible because it springs, not from personal hostility or accidental misunderstandings, but from ever-present organic economic causes.

There is war between employer and employee.

The employer is in business for profits. Industrial profits come from the work of the hired hand. The smaller the wages the larger the profits. The employee works for wages. Wages represent the product of his labor after deduction of the employer's profit. The smaller the profit the larger the wages. The employer must strive to maintain or increase his profits under penalty of industrial extermination. His personal views and feelings cannot alter

<sup>2</sup> Reproduced by permission from *Harvard Theological Review* I, 98 ff.

the situation. The employee must strive to maintain or increase his wages under pain of physical destruction. His personal inclinations do not count. Sometimes this antagonism of interests expresses itself in petty bargaining and commonplace haggling, and at other times it assumes the form of violent conflicts: strikes, boycotts, and occasional dynamite explosions and, on the other hand, lockouts, black lists, injunctions, and jails.

There is war between employer and employer.

Each capitalist controls a share of an industry. The greater the share the larger, ordinarily, is his profit. His natural desire is to increase his share. He can do that only at the expense of his neighbor. Hence, the mad industrial competition, the merciless rivalry for the "market," the mutual underbidding and underselling, the adulteration and falsification of commodities, the senseless speculative enterprises, and, finally, wholesale failure and ruin.

There is war between worker and worker.

Modern machinery, although inherently of untold blessing to mankind, operates as a curse upon the toiler under the prevailing system of individual ownership. It does not lighten the burdens of the worker. It does not reduce his hours of labor — it displaces him from his employment. The marvelous productivity of the machine creates the dread legions of jobless workers, the fierce competition for a chance to work, and the consequent lowering of wages below the living standard.

The automatic, almost self-operating, machine makes child and woman labor possible and profitable, and the children and wives of the workers are drafted into the field of industry in competition with their fathers and husbands. The more women and children are at work in factories the rarer becomes the opportunities for men to find work and the lower become their wages. Child and woman labor means lower wages for man. Low wages for men mean more child and woman labor, and so the workers move forever in a vicious circle of misery and privation.

There is war between producer and user.

Business is conducted for profits. The larger the prices of the commodity or the higher the rate of service the greater, ordinarily, is the profit of the capitalist. Hence, the everlasting quarrels between the seller and the buyer, the landlord and the tenant, the carrier and the passenger, the aggressive and inexorable "producer," and the pitiable "ultimate consumer."

The individualistic and competitive system of industry is a system of general social warfare; an ugly, brutal fight of all against all. It is a mad, embittered race for wealth or bread, without plan or system, without pity or mercy. It has produced the abnormal type of the multi-millionaire with a hoard of material wealth enough to last thousands of families for countless generations to come, and the children of the slums succumbing for lack of the barest necessities of life. It operates through periods of feverish activ-

ity during which men, women, and even children of tender age are worked to exhaustion, and periods of inactivity and depression during which millions of willing workers are forced into idleness and starvation.

The system of competition has not been without merit. It has organized industry, stimulated invention, and increased human productivity a hundred fold. It has created vast wealth and evolved higher standards of life. It has broken down the barriers between countries and united all modern nations into one world-wide family of almost identical culture and civilization. It has played an important and useful part in the history of human growth.

But sharing the fate of all other industrial systems, competition finally reaches a stage when its mission is accomplished, and its usefulness is outlived.<sup>3</sup>

<sup>3</sup> Morris Hillquit: "Socialism Summed Up," pp. 14-17.

### III

## THE LIMITS OF PRODUCTION <sup>1</sup>

GEORGE E. ROBERTS,

The evolution from mere economic to industrial humanism has been traced by Dr. Shaw in his Wesleyan address. The persistence of the economic struggle has been described. To a comprehensive view of the present world unrest it is important to turn back briefly to some of the earlier theories before facts on which to base opinions were abundant. The following words by Mr. Roberts reenforced by Professor King of the University of Wisconsin and Professor John B. Clark of Columbia will receive, of course, the utmost consideration.<sup>2</sup>

We suggest that when the Washington conference meets it will do well to take up for consideration a book upon "The Wealth and Income of the People of the United States," by Professor Willford I. King, of the University of Wisconsin.

Professor King says that the quantity of goods turned out absolutely limits the income of labor, and after a careful calculation of the nation's production concludes that if all rent, interest and profits were eliminated and added to wages

<sup>1</sup> The *Americas*, September, 1919.

<sup>2</sup> The reader will observe that the editorial links are represented throughout the book in smaller type than the ordinary text.

the latter would not at the outside be increased over 25 per cent. But the elimination of these would leave nothing in industry to finance growth and development.

Following are some of Professor King's comments, which are very pertinent at this time:

"After all reasonable allowances have been made, the fact remains, practically, that, beginning with 1870, there has been an increase in the national dividend so enormous that it cannot logically be ascribed to anything but the tremendous advance in productive power due to the revolutionary improvements in industry which have characterized the last half century. It seems improbable that any other great nation has ever experienced such sweeping gains in the average income of the inhabitants. It has, almost necessarily, been accompanied by a great rise in the standard of living."

. . . . .

"Of late we have had a period of 'muckraking' in which all things that exist have been pictured as very bad and growing worse. The misery of life, the difficulty of making both ends meet, has been over-emphasized. True, it is just as difficult to secure the articles required by our standard of living as it ever was. But our standard of living has grown more expensive. Increases in quality cost even more than increases in quantity. Our wants always have and probably always will increase with our ability to satisfy them, so that there is never any hope of winning the



race with our standard of comfort. Such a race is just like chasing one's shadow. Nevertheless, to the present author, a larger per capita supply of economic goods appears to be a most distinct benefit to any nation, and the United States has been greatly favored in this line during the last sixty years."

. . . . .  
"The period 1850-1900 saw that come to pass in the United States which the English economists of the earlier nineteenth century deemed impossible — the improvement of the workingman's economic welfare to the extent that he was lifted out of the conditions formerly thought inseparable from a working life. He tasted the cup of learning; he experienced the joys of leisure and entertainment, and he so limited the size of his family as to enable his children to continue to secure these advantages. Larger income and more learning naturally brought more power and secured more respect. The army of labor became an ally to be courted or an enemy to be feared."

After a careful discussion of the division of the national income among all classes, Dr. King reached the conclusion that if all rent, interest and profits were added to wages the sum of the latter would not be increased by more than one-fourth. He says:

"It would seem improbable that, with our present national productive power, any feasible system of distribution could increase the average wage earner's income in pur-

chasing power by more than one-fourth, and this is an extreme rather than a moderate estimate. While such a change might or might not be desirable, it would, at least, work no startling revolution in the condition of the employées of the United States. The grim fact remains that the quantity of goods turned out absolutely limits the income of labor and that no reform will bring universal prosperity which is not based fundamentally upon increasing the national income. After all, the classical economists were right in emphasizing the side of production in contradistinction to that of distribution. Nature refuses to yield her bounty except in return for effort expended. Demands for higher wages have never yet unlocked her storehouses."

These conclusions are pertinent to this whole industrial and social situation which the conference is to consider. If they were generally accepted they would clear the atmosphere and change the tone of current discussion. The attitude of wage earners toward their work would be altered and production would be increased.

President Wilson in his recent letter of reply to the railroad brotherhoods said that what was wanted now was not heat but light. When Lloyd George called an industrial conference in London in February to consider the situation presented by the threat of the miners and railroad employées to strike, the conference recommended the appointment of a committee of investigation. The best thing the Washington conference can do is to recommend the ap-

pointment of a competent commission to examine the facts upon which Professor King has based the above conclusions and report whether the King conclusions are sustained.

What is wanted is a demonstration of the fact that the distribution of the social product is not a mere matter of selfish struggle, but determined by economic law; that it is impossible for capital to exploit labor in any general sense, because the very efforts of capitalists to increase capital accomplish an inevitably increasing distribution to labor. Despite anything that capital can do, the economic law gives labor a constantly increasing share of an increasing product. Mr. Henderson's doctrine works vastly more injury to the laboring class than anything the capitalists can do.

Dr. John B. Clark, head of the department of political economy, Columbia University, writing recently of the social disorder prevalent over the world, said:

"The motive of it all — the hope of enriching the poor — is based on a mistake of fact. Not only Russian revolutionists but Socialists everywhere believe that the income of the capitalist class, which the proletariat is urged to seize, is several fold larger than it is, and that belief accounts for much of the sympathy which American Socialists express for the Bolsheviks. If Russia is left entirely to herself and if the Bolsheviks there gain full control, it will in time be discovered that the wealth which has been seized was originally smaller by far than they supposed it was, and that the revolution has reduced it to a pitifully small

amount. The unlimited treasure of Socialist dreams is as unreal as the gold at the end of the rainbow, and much of that lesser treasure which was real and substantial has nearly vanished in the grasping. The effects of the Bolshevik government and the soviet form of government and the pressure for a like system in other countries are based on economic illusions which experience would dispel, though at a terrible cost to the countries that had furnished the object lesson. Russia is now paying at a tragic rate for the proof that is already open to the world that a general spoliation of wealth means poverty even for the spoilers."

These opinions by men who are scientific students of social conditions are entitled to weight in the present critical state. Why not call upon them for the facts and reasons by which they have reached their conclusions?

# IV

## THE FOUR PARTIES TO INDUSTRY

W. L. MACKENZIE KING

Many have attempted to interpret the new world of industry into which we are passing. It has been the special business of the editor for some time both to observe phenomena and to read its manifold interpretations. Nowhere has he found in as small compass such clear analysis and sound constructiveness as in an address given March 13, 1919, before the Empire Club of Canada at Toronto, a part of which is printed below by the courtesy of the speaker, who is equally at home in the United States and Canada.

We are accustomed to discuss the problems of industry in terms of Capital and Labor. The inability to find a workable solution to many of these problems arises from a vision thus circumscribed, and an ignoring of other factors equal in significance and importance. To carry on industry in any but the most primitive way, four parties, discharging separate and distinct functions, are necessary.

First of all, there is Labor, which supplies the muscular and mental energy necessary to effect the processes of immediate transformation.

Next, there is Capital, which is necessary to provide the

raw materials, the tools, appliances, and equipment essential to industrial processes, and the advances in the way of food, clothing, and shelter required by Labor pending the distribution of the finished product.

Then there is Management, or Directing Ability. So frequently has Management been associated with the ownership of capital, that the identity of the former has more or less been merged in the latter. However, a moment's reflection is sufficient to disclose the complete dissimilarity of function between the two. Capital's contribution to industry is in the nature of material substance loaned by way of investment. Its possessor may be any kind of person, from a social parasite or ne'er-do-well who is the inheritor of a fortune, to an infant totally incapable of any service to industry, and whose property is necessarily held in trust. Managerial ability, on the other hand, is in the nature of personal service of the very highest order, and is wholly necessary, not only to bring about efficient co-operation between Labor and Capital in the work of production, but also to effect and maintain right relations with the fourth party, without whose co-operation in all that pertains to industry the other three parties could accomplish little or nothing.

The fourth party is the Community,<sup>1</sup> that entity which we speak of sometimes as organized society, under whose

<sup>1</sup> The editor uses in this volume the more familiar phrase "the public" as synonymous with "the community."



sanction all industry is carried on, and by whose continuous co-operation with the other parties to industry, production, distribution, and exchange are rendered possible.

Not only are the four parties necessary to industry, but they are equally necessary to one another. Capital can do nothing without Labor. Labor can do nothing without Capital. Neither Labor nor Capital can co-operate effectively in industry save under the guiding genius of Management; and Management, however great its genius, can do nothing apart from the opportunities and privileges the Community affords.

If all four parties are necessary to industry, and equally necessary to one another, then, surely, all four should have some voice in the control of industry, and with regard to the conditions under which their services to industry are rendered.

Is our present organization of industry in any way suggestive of a partnership, in which Labor, Capital, Management, and the Community are regarded as inter-related and interdependent? Far from it, as everyone knows who has given the organization of industry a moment's reflection.—I am dealing, of course, only with the dominant types of large industrial organization, for it is mainly from this source that our present problems arise: transportation, manufacturing, mining, etc., etc.—So far as control goes, it is all in the nature of monopoly, and that a monopoly of control on the part of Capital.

The owners of capital, the capital investors, choose the Board of Directors; the Board of Directors choose the Management and dictate the policies. The Management regards itself as responsible solely to Capital. Labor and the Community become a consideration only in so far as they are able to make their power felt. Profits for Capital are a first consideration; profits usually as high as it is possible to make them. Wages to Labor, prices to the Community, are what they can be kept at, what the market will allow. Labor and the Community are not regarded as partners, entitled to share, through common knowledge, in a common venture, in gains and losses alike. Such control as they exercise is a control that is forced, not a control that is voluntarily shared; a control that in the nature of things begets an attitude of militancy on their part.

It is this monopoly on the part of Capital in the control and direction of industry that has led to the developments that are described as socialistic, ultra-radical, and even anarchistic. More than any other factor, it lies at the root of the industrial upheavals of the present time. The other parties to industry, though feeling themselves entitled to be regarded as partners, have despaired of gaining any measure of joint control by concession. They have felt themselves driven to exact, by force, what they believe to be their rightful dues. In the case of Labor, this demand for recognition in the control of industry has asserted itself in the form of strikes. In the case of the Community it has taken

the form of arbitrary enactment, leading to an assumption of single control by the state or municipality.

What is the Socialistic State, or Collectivism, which is its industrial expression, other than industry so organized as to transfer industrial control from Capital to the Community, to the exclusion of the other parties? Under the Socialistic State, the Government would choose the managers of industry, would own the instruments of production, levying taxation where more Capital was required, and would fix the wages of Labor, and the prices at which commodities are to be sold.

The War has revealed that the Socialistic State, which many workers have been led to believe is certain to be beneficent and idealistic, may become the most bureaucratic and autocratic of agencies, holding within its power the lives and freedom of men, as well as the conditions of their employment. Germany has given that object-lesson to the world.

The little there has been of State control during the War has also revealed that the substitution of political managers for industrial managers is not likely to be the best for either industry or the State. Of that, all countries have had a taste.

What are the extreme movements on the part of Labor but a similar reaction against the monopoly of Capital control? In its most violent forms, this reaction has found expression in Revolutionary Syndicalism, Bolshevism, and

certain forms of I.W.W.-ism, where in addition to the ignoring of Capital and Management as parties to industry, the Community is also ignored, and Red Terror used to supplant Reason in all that pertains to the accomplishment of lawless designs.

Guild Socialism is similarly a reaction on the part of Labor against monopoly of control on the part of Capital. Like State Socialism, it would rule out Capital's right to joint control just as effectively as Capitalism seeks to rule out Labor's right to joint control; but as the predominant factor in control it would substitute national guilds for the state. Industrial unions would select the managers, would own the capital, and would determine alike wages and prices.

In protesting against an actual monopoly of control by Capital under Capitalism, and a possible monopoly of control by the State under Socialism, Guild Socialism would establish a monopoly of control by Labor under National Industrial Guilds. This is a natural reaction. It represents the extreme of the protest by a militant Labor Unionism against the monopoly of control by Capital, just as Collectivism represents the extreme of a protest of an aggressive State Socialism against the monopoly of Capitalistic control. Guild Socialism and Collectivism are alike in that each would oust Capitalism by setting up a monopoly of its own.

But the cure for monopoly of control by one of the parties to industry is not to be found in the substitution of

monopoly of control by one of the other parties; it lies in the destruction of monopoly altogether. It is to be found in the substitution of joint control for single control.

Single control, whether it be by Capital, Labor, or the State, sooner or later is certain to mean autocratic control. Whether Labor or the State as the autocrat is preferable to existing capitalistic control, beholden as it is, in some measure at least, to both Labor and the State, is something to which conditions in Europe at the present time afford an all-sufficient answer.

It is not monopoly of control in any form that we must seek to bring about in this period of transition, but a gradual evolution into a system of joint control, whereby each of the parties to industry will be afforded a voice in the determination of the terms and conditions upon which its services to industry are rendered.

And is not joint control by all the parties to industry in every way eminently wise, as well as fundamentally just? Is it not in every way, in the long run, to the interests of industry, and to the interests of each of the parties to industry? Continuance of the system of monopoly of control by Capital is no longer possible. Once autocracy was doomed in the political world, its doom was equally sounded for the industrial. The interest of every one of the parties to industry is being menaced to-day in the reactions to which the monopoly of control by Capital has given rise.

No one of the parties stands to lose quite so much through

a continuance of the struggle arising out of the monopoly of control by Capital, as Capital itself. As things are to-day, it is at Capital, and at Management, identified with Capital, that the stones are being blindly hurled. War ridden, hungry, and penniless, men and women have witnessed the wanton extravagance of many of those possessed of luxury. They have become bewildered with a condition which enables an idle investor to reap a fortune while the masses toil excessive hours for a bare subsistence. They have lost sight altogether of the services of Capital and Management in witnessing the debauchery of indolence combined with riches, and the unearned millions of profiteers.

But let the service that Capital and Management are capable of rendering industry once be lost to sight, and industry itself will be ruined, and with it the well-being of Labor and the Community as well. What is needed is, not the ruination of Capital and Management, but that each be given its rightful place in a system of the government of industry which will make for the good of all the parties to production.

Nor is the monopoly of control by Capital wholly fair to Management, or in its best interests. It has been my privilege to talk pretty freely during the past few years with the managers of many large industries, and I find in the minds of not a few of them a feeling that everything is to be gained, and nothing lost, by having the function of Capital and the function of Management kept separate and dis-



tinct, and Management given a freer hand in considering the interests of Labor and the Community.

Some managers there are who obtain their positions, not in virtue of any special skill in managerial ability, but because of personal ownership of large quantities of capital, or intimate association or relationship with some investor. The incompetence of such managers, and their slavish subservience to privilege and position, to the exclusion of a due consideration of the rights of Labor and of the Community, only serve to rouse the bitter antagonism of both these parties, who feel that their rightful interests, as necessary partners in industry, are being thwarted and jeopardized.

Not a little of the militant attitude on the part of Labor, and impatience on the part of the public with the present order of industry, is due to a feeling that some managers fail to render to industry any service at all commensurate with the enormous salaries they receive, and to a belief that the interests of Labor and of the Community alike are sacrificed to incompetence and extravagance which would not be permitted were all four parties to industry allowed some voice in the shaping of industrial policy.

Management, instead of being regarded as the servant of Capital exclusively, ought to be in a position to regard itself, as in fact it is, one of the necessary parties to industry, and as such entitled to a voice in matters which pertain to its administrative functions; responsible in the exercise of its duties, not to one party only, but to all.

In the emancipation of Management from the single control of any one of the parties, whether it be Capital, Labor, or the Community, and in the development of its function into that of a responsible executive, concerned equally with all the interests of the necessary parties to industry, lies the hope of any ultimate solution of the industrial problem.

Referring to what is fundamentally right and just, may it not be asked: Is Labor not quite as much entitled to a voice in the control of industry as Capital? It is investment in industry which affords the right to share in corporate control. Capital and Management receive representation on this basis. If Capital and Management are so entitled, why not Labor also?

Industry is a joint venture, a venture of Labor as well as of Capital. The difference in the nature of the investment of Capital and Labor only serves to emphasize the fundamental justice of Labor's right to a share in control. The investment of Capital is in the nature of an investment of substances and dollars; the investment of Labor is an investment in the nature of skill and life. The one is a material, the other a human, investment; and of the two, the one involving life is the more precious.

The capital investor—the individual who in industry loans and risks his capital or a part of it—receives for his capital a return in the form of interest; but he receives something more. As an investor, he becomes entitled to a voice in the control of the industry in which his investment is

made. The life or labor investor — the worker who in industry loans and risks his life, or gives to industry that part of it described as labor — receives for his labor, which is the use of his life and skill for the time in which labor is given, a return in the form of wages. He lacks, however, the additional right, which Capital receives, of a share in the government of industry. If Capital obtains this right, in addition to financial reward for the use of capital for the time for which it is invested, is Labor not in justice equally entitled, in addition to its monetary reward, to a voice in the control of industry in which, for the time being, its life and skill are likewise invested? If investment in industry has any meaning at all, it is surely one equally shared by the man who gives his labor and the man who gives his capital.

The Community's right to representation in the control of industry, and in the shaping of industrial policies, is wholly similar to that of Labor. But for Community investment on a local, national, and international scale, Capital, Labor, and Management would be obliged to make scant shrift under present-day conditions of world competition. But what of the Community's part in industry? Here, too, is joint venture on the part of the Community just as much as on the part of Labor, Capital, or Management. What is 99 per cent of the expenditure of government in normal times but outlays in the nature of investment in industry: investment in property and services of one kind or another,

which alone makes possible the vast co-operation and co-ordination of effort which is the very life-blood of industry?

The vaster industrial organization becomes, the more it depends, in a multitude of directions, upon the investments of the Community.

It is the Community which provides the natural resources and powers that underlie all production. Individuals may acquire title by one means or another, but it is from the Community, and with the consent of the Community, that titles are held. It is the Community, organized in various ways, which maintains government and foreign relations, secures law and order, fosters the arts and inventions, aids education, breeds opinion, and promotes, through concession or otherwise, the agencies of transportation, communication, credit, banking, and the like, without which any production, save the most primitive, would be impossible. It is the Community which creates the demand for commodities and services, through which Labor is provided with remunerative employment, and Capital with a return upon its investment. Apart from the Community, inventive genius, organizing capacity, managerial or other ability would be of little value. Turn where one may, it is the Community that makes possible all the activities of industry, and helps to determine their value and scope.

Community investment is supposed to receive its return in enhanced purchasing power to consumers as respects the

number and quality of available services and commodities. This is a return akin to the interest Capital receives, and to the wages Labor receives. But is not the Community equally entitled, on grounds of investment, to a voice in the control of industry and in the shaping of industrial policy? Without participation by the Community in the control of industry, there is nothing to prevent the emergence of a joint-profiteering scheme by the other parties, in which high wages and high profits are secured by charges which fall either immediately or ultimately upon consumers.

If industry is to cease to be the battleground of rival factions, each selfishly seeking its own interest, regardless of the interests of the others, its government must cease altogether to be a matter of single control by one of the parties, or of contending controls by the several parties. The parties to industry must be brought into a relationship of partnership, with a recognized community of control.

Partnership is essentially a matter of status. It does not involve identity or similarity of function on the part of the partners, or equality of either service or rewards; but it does imply equality as respects the right of representation in the determination of policy on matters of common interest. It is this principle that has thus far so largely failed of recognition. The justice of the principle, however, cannot be gainsaid.

If to secure a just consideration of the rights of all four parties to industry something in the nature of a partnership,

involving community of control, is necessary, how, it will be asked, is that transition to be effected? Certainly, it will never be brought about by violent upheavals or revolutionary methods, which serve only to disorganize industry and occasion loss to all its parties. It must be brought about in an evolutionary manner, here a little, there a little; line upon line, precept upon precept, all working toward the consummation of one ideal.

Time forbids more than a suggestion or two as to the manner in which a constitution for the parties to industry might be worked out in a way which will help to allay the industrial unrest of our times, and advance the highest interests of industry, and of all its parties. Obviously, what is most needed is recognition of the fact that industry is not a matter which concerns only one party, but that it is of vital concern to all four: to Capital, to Labor, to Management, and to the Community, and that no one of the four is entitled to a monopoly of control.

Once recognition is given the four parties to industry, the solution of the problem of industrial relations is a matter simply of proceeding in accordance with principles which have long been regarded as obviously fair and just.

The first of these principles I should like to mention is that of *Conference*. It is impossible to get anywhere with a man with whom you are unwilling to confer. Conference is chiefly a matter of attitude. It implies approach, good-will, confidence; not aloofness, distrust, and suspicion,



which too frequently is the attitude between the parties to industry.

Conference between the four parties to industry has been tried, and with the best of results. It was found absolutely necessary to the winning of the War. It was not until the Government of Britain, representing the Community, invited Capital, Management, and Labor to meet in common, and policies were arrived at as the result of Round Table Conference, that the necessary adjustments of industry were so arranged as to make possible the vast production of munitions required to win the War. What was necessary to the winning of the War is equally necessary to the winning of Peace — which we can hardly say exists so long as international strife gives way only to industrial unrest.

The second principle is that of *Investigation*. Investigation is but a method of getting at the truth; and, as I said at the outset, it is the truth alone that shall set us free. In problems of the magnitude of those which industry presents, any just solution is impossible without a knowledge of the facts. There are certain evils which publicity is more effective in preventing and remedying than penalty; and unfair dealings between the parties to industry are of this kind. Meanness, injustice, gross selfishness — these cannot endure under the light of an intelligently formed public opinion. Most industrial ills belong to this class.

What we need quite as much as a League of Nations is a League of the Parties to Industry to see to the enforce-

ment of this great principle, and the moulding of public opinion to that end. Such a league, I believe, would lead, even more quickly than a league of nations, to the maintenance of international, as well as of industrial, peace. Accustom men to the adoption of fundamental principles in adjusting their industrial relations, something which immediately concerns their everyday life, and the application of like principles to international affairs will take care of itself.

A third principle is that of *Organization and Collective Action*. The problems of industry are world problems. To cope with them successfully, organization is absolutely necessary.

What would become of Capital, under the stress of world competition, if its units were not permitted to coalesce, and large organization of business thereby rendered impossible? What would become of the Community, if its activities were not organized? Deprive managers of the right of membership in an employers' or manufacturers' association, and they would be the first to say that their liberties had been infringed. Where, then, is the justice of denying to one party to industry a right which is conceded as just and necessary to the other three? If Capital, Management, and the Community have the right to organize, so also should Labor have this right.

Without organization of Labor — where Capital, Management, and the Community are organized — what equal-

ity of relationship can there possibly be between the four parties to industry? And where, under such a condition, are the individual units of Labor likely to find themselves in the teeth of a world competition, more relentless where Labor is concerned than in the case of Capital or Management? Labor left but briefly in a condition of isolation will starve; Capital and Management are usually in a position to wait.

It is not against organization that we ought to protest, but against the possible abuses of organized power. In this connection it is well to remember that the use of a thing is one thing, and its abuse another; and that with human nature what it is, abuses of power are not confined to any one class.

A fourth principle is that of *Representation*. Here we are at the beginning of the real solution of the problems of industry. Government within the State has widened down from autocratic authority to authority broad-based upon a people's will. The expansion of the principle of representation is responsible for that development. It will be equally so in industry. The problems of industry are essentially problems of government. Adequate representation of the parties, effected through organization, all enjoying the right of investigation, and meeting in Round Table Conference—in such an obviously just and fair arrangement, we have the beginnings of law and order in industry, just as we have had it in the State, and the hope of a future

development along constitutional and evolutionary lines, instead of along lines that are illegal and revolutionary.

Once the principle of representation is conceded, it is only a step to the formation of joint committees of employers and employees, the establishment of known, orderly, and expeditious procedure in all matters requiring adjustment, and the determination of industrial policies in a manner which will have regard for the interests of all concerned.

From joint committees in individual establishments, meeting at periodical intervals for little more than purposes of conference and consultation, the principle of representation should lead to the establishment of permanent standing joint industrial councils, embracing all the workers and all the employers in a given trade or industry and concerned with the determination of industrial policies, and the fixation of industrial standards enforceable throughout by the co-operation of Government, representing the Community and protecting its interests. This, as you know, is the objective of the recommendations of the so-called Whitley Committee which the Government of Great Britain has adopted as the corner-stone of its reconstruction policy.

Nor is the formation of such joint committees and industrial councils any longer a matter of experiment. Every day is adding to the number that are being formed, many of them in industries which have hitherto opposed anything in the way of organization among employees, and which have conceded little or nothing in the way of conference.

The Trade Unions are mainly responsible for the development that has thus far been achieved. They have pioneered the path; they have blazed the trail which has led to collective bargaining, joint agreements, and contracts between the parties to industry. It has been a long and bitter struggle, this struggle for recognition on the part of Organized Labor. It has involved any amount of ill-feeling and misunderstanding, and fostered no end of prejudice and hatred; but the real purport of Labor's struggle is coming to be better understood, and the part which the large organizations of Capital and of Labor are capable of playing in reconstructing human society is emerging into clearer day.

It is coming to be seen that the control of Labor by its leaders is wholly dependent upon its organization into conservatively directed unions; that it is among the unorganized and undisciplined workers that Bolshevism and I.W.W.-ism recruit their armies of terror and destruction. In a union of the organized forces of Labor and Capital, against a common enemy which menaces all human society, lies the hope of the future. Industrial concerns which have hitherto stood out against anything in the nature of a democratic organization of industry will do well to evidence a disposition to act upon the principles of conference, investigation, organization, and representation, in dealings with their employees, and to concede to Labor the right of collective bargaining, and a voice in the determination of terms

of employment and matters pertaining to their working and living conditions.

It may be that Labor needs educating, that its readers need more in the way of experience; but, in the absence of other opportunities, whence are education and qualities of leadership to be gained if not in the industries in which Labor is employed, and through joint dealings with parties more highly favored?

The Joint Industrial Councils being formed in England show how this new approach between Capital and Labor is certain, in its most highly developed forms, to take account of existing organizations of Labor and Capital, and to change the attitude of these powerful bodies from one of militancy based on a belief in opposed interests into one of co-operation based on a belief in the larger interests which they have in common.

One thing, and one thing only, remains to ensure a new world rising out of the ashes of the old; but without it nothing can be achieved. It is the acceptance by each of the parties to industry of the spirit which has saved not only Britain, but the world, in the overthrow of Prussian arrogance and ambition. It was through a love of liberty and a hatred of domination that men by millions sacrificed their lives that freedom might not perish from the earth. The overthrow of Prussian despotism is only part of the vast undertaking which the free nations of the world have still before them if Freedom worthy of the name is to be main-



tained. Industrial autocracy and political autocracy may go hand in hand, but not autocracy in industry and democracy in politics. The latter combination is as ill-mated as the former is natural. To the nations that have won political freedom, there remains the task of reorganizing their industries into harmony with their governments. Anything short of harmony means perpetual conflict. Institutions opposed in organization and spirit can work against each other only till one or the other prevails. To democratize industry, so that along with democracy in government there may be a true industrial democracy, is the task that lies ahead.



## V

# THE COMING OF CAPITAL.

The arrival of Capital in our economic history was not conspicuous or sensational; but it profoundly affected the economic man and altered the economic struggle. Mr. Hobson in his "Evolution of Modern Capitalism" sums up these changes thus:

1. *The existence of considerable masses of accumulated wealth.*—There was little opportunity in the Middle Ages for the craftsman to make more than a living out of his work. The early accumulations of wealth must, therefore, have come from land rents or from treasure trove acquired through pillage or the discovery of mines. This was a necessary forerunner even of the colonial trade, which later became one of the most fertile sources of profit.

2. *The transfer of control of this wealth into the hands of a class of "business men."*—Originally surplus funds from whatever sources went to the church, the knightly orders, the nobles or to city funds. With the growth of the towns many of the nobles went there to live, bought city land, and often took up city occupations. To a greater extent the change came through the gradual transfer of control of both public, church and private property to the hired managers of various ranks such as rent-collectors and stew-

ards, or to the public officials who were the agents of the city funds and estates. Another frequent source of change of control and even of ownership was the prosperous business of money-lending of the time.

3. *The use of the accumulated wealth to exploit a large, non-landowning labor class.*—This possibility was found first in the colonial trade where the native labor on the natural resources was found to be an even greater source of profit than the discovery of the precious metals. Later the growth of population and the change of conditions of agriculture in Europe produced such a labor class there also.

4. *The development of the industrial arts.*—The conservatism of vested interests in the guild organizations of the mediaeval city did not conduce to any changes in industrial methods. Moreover, there was so small a market for any goods that labor-saving devices could not have seemed necessary. This may partly have accounted for the concentration of attention by the "science" of the time upon such problems as alchemy. At any rate there was no scientific foundation for the growth then of a technology such as developed later.

5. *The growth of the capitalistic spirit.*—Potential entrepreneurs of early days had little chance to develop their abilities or even to discover them. The class which could afford an education and could command capital, regarded all industrial occupations as degrading. The growth of a class of business men, mainly from the lower orders, the discov-

ery and use of account-keeping, land surveying, and the adoption of modern forms of contract and use of weights and measures, brought about that change of spirit from interest in treasure hunting to interest in profit making which Sombart calls a change to "economic rationalism."

But it was not without difficulty that capital found its way into the economic system. Five centuries ago the whole social organization stood across its way. Even our own more recent slavery system made difficult the domination of capital. Not in fact until labor could of its own free will at first follow capital did the capitalistic spirit develop without check and by force, magic invention, ingenuity, and the skilful use of money dominate the lives of men individually and collectively. The change came earlier in England than America.





## VI

# VARIOUS CONCEPTIONS OF CAPITAL

While in these volumes the few technical terms are used in their everyday meaning, a variety representing various shades of thinking will be here and there quoted. Capital, for instance, has its ordinary business significance for the purposes of this series. It includes all kinds of material possessions which have value for exchange purposes, or are available as surplus wealth for investment. Even land thus becomes Capital where it is in any way related to or affects industrial processes, but entering the regions of economic definition, Capital generally appears to connote wealth accumulated either by a man or community and available for earning interest and producing new wealth.

Richard T. Ely even more simply calls Capital "an accumulation of products of past toil, which may be used for purposes of further production."

John Stuart Mill emphasized the element of abstinence from consumption which he thought entitled Capital to claim for its reward rent, interest, or even profits.

Long before his day Adam Smith had drawn a distinction between "fixed" Capital, which yields a profit without appearing to change hands and "circulating" Capital which may change hands at will.

W. H. Mallock insists on the right of brain work to be rewarded as against the Labor view that Labor alone has normal claims for compensation.

Karl Marx went to the extreme of definition in the statement, "Capital is a social relation existing in the processes of production. The means of production are not capital when they are the property of the immediate producer. They become capital only under conditions in which they serve at the same time as the means of exploiting and ruling the laborer."

## VII

# CAPITAL AS MONEY

THE EDITOR

We live in a pecuniary world. In practically all our business relationships we use money, which gives us power over things. There was a time when barter served in trade. But rarely did one person possess what another could obtain by exchanging for it what he had. Men could seldom agree upon a common denominator. The tailor, as some writers have observed, might have a coat he was willing to exchange for bread or meat; but to cut up the coat to procure what he desired was to make it worthless. He could therefore say with Hamlet:

“ Like a man to double business bound,  
I stand in pause where I shall first begin,  
And both neglect.”

Like the alphabet, money had to be invented to enable men to get from others what they could not themselves produce necessary to exist at all. Following Bastable's conception of money, we at once perceive that nothing could serve as money which is not valuable in itself, useful, obtainable, transferable, limited in supply, unchangeable in value over

at least short periods without failing to be in proportion to the weight or mass, and capable of division for convenience sake. Silver and gold alone have seemed to satisfy such a variety of tests, and for a generation past gold has taken precedence of silver, which has proved useful as a subsidiary coinage.

Bastable says the value of money is its purchasing power, and this depends on its cost of production. But this assumes a freedom of competition rarely to be found. Of course nothing can serve as money whose value fails to be in proportion to its weight or mass. Silver and gold have seemed the only suitable materials to meet the conditions indicated above of money, and gold for a generation past has for obvious reasons taken the precedence of silver, naturally a subsidiary coinage. Turgot long since said silver and gold became universal money in the very nature of the case, and Cantillon says that "silver and gold alone are of small volume, of equal goodness, easy to transport, divisible without loss, easily guarded, beautiful and brilliant and durable almost to eternity."

## VIII

# THE NATURE OF CREDIT<sup>1</sup>

PETER P. WAHLSTAD

1. *The Magic of Credit*.— That credit is a force in modern business requires but little proof in view of its extensive use by merchants and manufacturers the world over. That, as a matter of fact, it is an indispensable element in present-day commerce, will also readily appear upon even a cursory examination of the subject. That some of the feats performed by credit are remarkable to an extent approaching the work of a magician upon the stage, is likewise a subject of proof.

To illustrate the last statement: A merchant in Chicago wishes to import a shipment of goods from a manufacturer in Yokohama, Japan. He is not willing, however, to pay for these goods in advance; in fact, he wishes to pay for them only after he has received them and has had an opportunity to re-sell them to his customers. But the Japanese manufacturer insists upon receiving payment before the steamer upon which he is to ship the goods leaves port. Inasmuch as it might take two months before such a shipment

<sup>1</sup> Peter P. Wahlstad: *Credit and The Credit Man*, pp. 1-13. Reproduced by courtesy of the Alexander Hamilton Institute from "Modern Business," vol. 8, ch. 1.

could be delivered in Chicago, and since another month or two might be required for the resale of the goods and for the money to reach the Yokohama manufacturer, probably four months would elapse before the transaction as a whole could be closed. It is evident, therefore, that the conditions imposed by the shipper on the one hand and the importer on the other, cannot be complied with — unless, indeed, the latter borrow the required amount of money.

Credit, however, overcomes the difficulty. A simple letter of credit, obtained by the Chicago merchant from his local banker, permits the Yokohama manufacturer to make a four months' draft upon a London bank, which draft he may sell to his Yokohama banker even before the ship that carries his goods has started on its voyage to the United States. The Yokohama bank in turn may promptly resell the draft to a local merchant who has bills to pay in London. Upon presentation in due time of the draft at the London bank, the latter, with a stroke of the pen "accepts" the document, which thereupon circulates in the credit market until the four months have just expired, when it is again presented — this time for payment. But long ere that date arrives, the goods from Japan will have arrived in Chicago and will in all probability have been resold by the importer. A sufficient part of the proceeds of the sale will also have been sent to the London bank, so that the latter, when the draft reappears, is ready to pay it without having to use any of its own money.



Thus, without any one having advanced a penny, the transaction has gone through without a hitch. The money which the Chicago importer paid for the Japanese shipment was received by the shipper four months before that money was sent. Yet the importer sent the money only after the goods had been received in Chicago and resold there. Credit, as we see, has performed the apparently impossible.

2. *Meaning of Credit.*—It is natural that in beginning our study of this exceedingly important fact of modern commerce, we should seek to obtain a clear and comprehensive understanding of the meaning of the term itself. In a general way, of course, every one is familiar with the term “getting credit” or “buying on credit.” We know that ordinarily it describes the obtaining of something in the present for which payment is to be made in the future. Yet for our present purpose we need a somewhat fuller and more exact understanding of the subject than this general concept affords.

Numerous definitions of credit have been given, each differing more or less from the others, according to the special viewpoint of the defining authority. Thus, one definition tells us that credit is “a reputation of character, of confidence or trust, a good name or opinion gained by upright conduct in business; a reputation of solvency.” Another definition, equally correct, says that credit is “the present right to a future payment.” It is easily recognized that both definitions are right as far as they go; yet they are

necessarily incomplete in that each regards the subject from only one point of view. We shall probably obtain a clearer idea of the subject, as far as our present inquiry is concerned, if we consider briefly the place of credit in our modern commercial structure. We may, therefore, defer for the moment any attempt to supply a more comprehensive definition.

3. *Relation of credit to capital.*—When wealth, or any part of it, is employed for productive purposes, as in manufacturing or similar enterprises, it is called capital. Unless it is employed productively, wealth is not, properly speaking, capital. When hoarded or otherwise permitted to be idle and unproductive, it is not regarded as capital.

Credit is not a product of labor, and is not capital. It is important that we be clear as to that from the outset. We shall presently note more fully what credit accomplishes in the world of trade, and shall then be better able to appreciate the fact that whatever else credit may be in an economic sense, from the standpoint of the merchant, credit may properly be regarded as machinery invented to aid in accomplishing the purposes of capital.

4. *Credit and civilization.*—Going back a little, we note that credit did not obtain its present importance all at once. It has been a plant of slow growth. Credit is, in fact, both a promoter and a result of civilization, and its development is found to have kept pace with the development of civilization, which fact suggests that as time goes on still further

refinements and extensions in the profitable use of credit may be possible.

In the earliest time of man's existence credit was probably unknown. For as long as might was right, the stronger possessed himself at will of the property of the weaker, and since under such conditions the question of payment did not arise, there could be no occasion for the use of credit. Gradually, however, the law of might gave place to the law of right, and instead of possession by conquest, there came to be possession by exchange. For the thing wanted, another thing of equal value was tendered, and if the exchange was mutually satisfactory, the trade was consummated.

But exchange in the form of barter is necessarily crude and cumbersome, and seldom wholly satisfactory. Hence the demand for a medium of exchange arose. Something was needed that could be passed from hand to hand at a fixed value and into the terms of which other values could be readily translated.

A variety of commodities came to be used for that purpose. It is interesting to recall that no farther back than the Colonial period of our country, tobacco was used as currency, and for nearly two hundred years the State of Virginia grew its own money. Maryland did the same for a somewhat briefer period.

Finally, as we know, gold and silver became the preferred money metals. In the course of time, however, a point was reached where even a material medium of exchange, such

as gold, proved inadequate for the purpose of a ready exchange of goods and services. For that reason, and for others which will come before us presently, credit came to be recognized as a legitimate and desirable factor in trade, and began to take the place of money as a medium of exchange in business transactions.

5. *Place of confidence in credit transactions.*—With the gradual progress of civilization men learned to trust each other, and out of this increasing confidence of man in his fellow-man the use of credit was gradually developed.

Without such confidence there could of course be no credit, for although, as we shall presently see, confidence is not the sole basis of our credit system, it is nevertheless indispensable to the existence of credit relations. "Credit cannot exist," as one writer has well said, "without confidence in the security of property and in the disposition of the purchaser of a commodity to pay for it at the time appointed. No man parts with his property except when he believes an equivalent will be returned."

6. *Confidence supported by contract.*—It is clear, however, that if the requirements of business make it necessary that men trust each other, it is equally necessary that some means be found for protecting this confidence and preventing its abuse. The law of contract has come to us as a result of that necessity. As the lawyer would express it: "The growth of civilization is the development of man from a condition of status to a condition of contract." Earlier

conditions permitted every man to carry on his way of making a living with the assurance that as long as he observed the common usages of the locality in which he lived, his status or economic relation with other men would be duly protected. Hence, we find that men paid customary rent for their land, received customary wages for their labor and charged customary prices for their products. In fact, business relations of every kind were regulated wholly by the customs which earlier generations had established.

Later, we find that men entered into agreements with each other whereby they pledged themselves to perform some act in the future. And since the element of future time entered more and more into men's business relations, it was seen to be necessary that the confidence upon which these relations rested should be protected against abuse. It is for this reason that the fundamental law of the business world is one that punishes severely every act whereby the obligations of a contract are disregarded. So closely associated have the two ideas of confidence and contract become that they are often expressed in a single word — credit. From a legal viewpoint credit has been defined as a "right of action."

7. *Time element in credit.*—Just as in all credit transactions confidence is an essential factor, so is time an ever-present element. To illustrate: A retail merchant buys from his wholesaler a bill of goods amounting to \$1,000. If payment were demanded on delivery of the goods, the merchant, perhaps, could not pay for them. If, on the

other hand, the wholesaler consents to wait thirty or sixty days for his payment, it will be possible for the retailer to resell the goods, or at least a considerable part of them, before the wholesaler's bill falls due. Thus it becomes possible to earn a profit, by the resale of goods for which payment has not yet been made.

This, as will appear more fully later, is just the purpose for which commercial credit is sought and given. To this end a credit of thirty, sixty, or ninety days, and sometimes of even a longer period, is given, the credit terms being governed by the nature of the goods and by the customs that prevail in the particular line of trade. If the buyer, instead of holding off payment until the expiration of the credit period, completes the transaction by paying his bill within a certain shorter period, he usually receives a special discount called a cash discount. This cash discount in most cases applies to payments made within ten days of the date of invoice, although there are not a few exceptions to this rule.

8. *Credit the chief medium of exchange.*— Since with the increase and development of business, the inadequacy of money as a medium of exchange became more and more evident, credit gradually assumed a more and more important place as such medium in the settlement of business transactions. This development has now reached a stage where all but a small fraction of the world's business is transacted with credit as the medium of exchange, though all such



transactions are necessarily measured and recorded in terms of money.

So important, in fact, has this function of credit become that any attempt to dispense with it at this late day would prove disastrous not only to business, but to society at large. If we may conceive a situation in which credit was eliminated and the substitution of cash payment enjoined, we should find the gigantic machinery of the world's trade rapidly coming to a standstill. Under such conditions industry and enterprise could not exist. Untold and widespread suffering and death would follow, and man would quickly relapse into a state of semi-savagery. So integral a part of our social system is credit at the present time.

In the oft-quoted words of Daniel Webster:

Credit is the vital air of modern commerce. It has done more, a thousand times, to enrich nations than all the mines of the world. It has excited labor, stimulated manufactures, pushed commerce over every sea, and brought every nation, every kingdom, and every small tribe among the races of men to be known to all the rest: it has raised armies, equipped navies, and, triumphing over the gross power of mere numbers, it has established national superiority on the foundation of intelligence, wealth, and well-directed industry.

9. *How credit takes the place of gold.*—As already mentioned, the world's gold supply is wholly insufficient to meet the demands of trade even if it were used for nothing else. For the purpose of settling trade transactions, therefore, re-

course is had to bills of exchange, notes and checks — commonly spoken of as instruments of credit. Instead of handing his jobber, say, \$100 in gold in payment of a bill of merchandise, the retailer may offer a piece of paper containing merely a promise to pay a certain sum at some definite future date — a promissory note. This paper, if confidence is had in the ability of its maker to fulfil his written promise, assumes for the purpose of payment all the importance and value of the gold which it promises to pay. Like money it may be passed from hand to hand, each recipient using it in paying his bills.

The paper may be an order upon the drawer's bank account — a depositor's check. For ordinary purposes of trade, such a check is just as good as the money it represents. The one who receives it, instead of taking it to the maker's bank and there exchanging it for its face value in gold, simply writes his name across the back of it and deposits it in his own bank, subsequently drawing his check against it. Or he may, after thus endorsing it, turn it over to some creditor, precisely as though it were actual money.

Again, the paper may be a draft — an order upon some person in a distant city, directing him to pay to the person named in the order as payee a certain sum.

As media of exchange, these various forms of credit instruments are, under proper conditions, equally serviceable.

10. *Bank and government credit money.*—Possibly the paper, instead of being a privately issued credit instrument,

is a bank note issued by a national or federal bank, promising to pay on demand an equal sum of gold. But no one into whose hands such a bank note falls thinks of taking it to the issuing bank to redeem it in gold. He simply regards it as "money" and proceeds to use it as such. He knows, of course, that the government has safeguarded such bank notes by means of compulsory deposits of first-class securities, and that therefore the risk he is assuming is wholly negligible.

Once more the credit paper may be one that is issued by the government itself. It may be a "gold certificate," entitling the holder to an equal amount in gold whenever he presents it at the treasury department for payment. But in ordinary times at least, this bit of paper is worth for purposes of trade every cent of the amount printed on its face, even though intrinsically of no value whatever.

As long, therefore, as such "promise-to-pay" paper is accepted and passes current in trade for the liquidation of debts, this medium of exchange is sufficient to effect the settlement of trade balances the world over. The relation of credit to gold and its regulation by the government are interesting and important subjects, but do not come properly within the scope of our present inquiry.

II. *Other advantages of credit over gold.*—Suppose a million dollars were to be sent from San Francisco to New York in settlement of a trade obligation. Suppose, also, that this amount in gold were on hand and available for the

purpose. It would be possible, of course, to pack and box the gold securely and to send it by express train across the continent. Yet to do so would be both troublesome and expensive. It would furthermore entail considerable risk. The loss of interest, while the gold was en route and thereby withheld from the channels of trade, would add to the cost of transportation, especially if delays occurred.

In order to avoid all this risk of loss and delay, and for the purpose of saving all but a small part of the cost involved in such shipment, credit is summoned to the shipper's aid. A bill of exchange on New York for the amount to be transferred is obtained without difficulty and promptly deposited in the mail. In a few days the creditor will have received the amount at the bank in New York—not in gold, to be sure, but in credit. Yet his account in the bank will be credited with the amount transferred, just as though the gold itself had actually been received, and the whole transaction, as far as he is concerned, is thereby closed.

When large amounts are to be sent broad—perhaps to some far-away country where the shipment of gold would be attended with even greater risk and difficulty than in the case cited—the use of credit instruments instead of gold is, of course, all the more convenient.

12. *Difference between money and credit.*—But while credit as a medium of exchange now performs the greater part of that work which formerly was allotted chiefly to money, it is important to note that credit itself is not, under

any circumstances, money. The latter, being wealth, possesses value. The metal in a five-dollar gold piece is worth approximately \$5. It may be melted or hammered into any shape, yet merely as a slug or piece of gold, whatever its form, it is worth and can be sold for the same amount. Credit, on the other hand, is merely an evidence of debt and obtains its commercial value solely from that fact. This is shown by the fact that when times are hard and a financial panic threatens, credit is unable to satisfy the existing needs of the commercial world. At such times there is already too much credit in existence. Any attempt to increase that amount, instead of relieving the tension, only adds to the existing danger and distress. In the confusion which always exists during a panic, every one is clamoring for money. Credit is abundant in the form of evidence of debt; money, that is gold, is correspondingly scarce. It is, in fact, just because such evidences of debt, or credit obligations, cannot be liquidated in gold on demand that the panic occurs.

In the same way, the paper currency of a country is good only so long as the government is able to redeem it in gold upon demand. When conditions make this impossible, the paper currency (government credit) quickly declines in value.





# IX

## THE KINDS OF CREDIT <sup>1</sup>

H. G. MOULTON

But in this modern business world with all its complications, barter can be carried on only to a limited extent even with silver and gold. In consequence "credit is the heart and core of the modern business structure." But credit is intangible and elusive. "Now you see it, now you don't." A check or a promissory note is visible. But they are sometimes utterly irrelevant to credit. Back of all outward and visible signs is confidence, which ultimately rests, as the late Mr. J. Pierpont Morgan said, on character. In business confidence is not reposed save on character or indisputable evidences to meet obligations.

By Public Credit is meant chiefly the borrowing operations of governments, whether national, state, or local, through the issue of interest-bearing securities. The government promises to pay interest on a bond from year to year and to repay the principal at some stated future date. The purchaser of the bond accepts the government's promise of intention to pay and has faith in its ability to keep that promise. The government by means of its credit is there-

<sup>1</sup> Taken by permission from H. G. Moulton, "Principles of Money and Banking," Part II, pp. 16-20. (The University of Chicago Press, 1916.)

fore able to secure funds for present needs. An issue of paper money by the government is another example of a credit operation. Even without any fund for redemption purposes an issue of paper money will not for a time depreciate to worthlessness; a promise of ultimate redemption will give it some value so long as faith in the word of the government is not entirely shattered. At any rate, a partial reserve in coin, as in the case of our greenbacks at present, will maintain the value of paper currency. To the extent of the uncovered issue we have a pure credit currency.

By Capital Credit, or Industrial Credit, to employ another term, is meant the credit used by corporations in procuring the necessary capital required in their business operations. The corporation agrees to return to the purchasers of its bonds at some future date the equivalent of the funds borrowed, with interest. The bondholder thus extends funds to the corporation because he believes the credit of the corporation is good. The purchaser of stock, also, trusts his funds to the managers of a corporation, and it is understood that he is to receive dividends in the future (if earned) and ultimately, if the business is liquidated, a return of his share of the capital. There is the obvious difference between a holder of stock and of bonds that one is an owner and the other a creditor, that the returns to the one are wholly contingent, and to the other definite, in so far as the mortgage is adequate. But credit, through the entrusting of one's funds to a third party, is an essential element in both.

Mercantile Credit is the credit used by producers, wholesalers, commission merchants, retailers, etc., in connection with the manufacture and sale of commodities, that is, with the movement of goods from first producer to ultimate consumer. For instance, a manufacturer who buys raw materials to be made into finished commodities may agree to pay the producer of the raw materials only after he has sold his product. He has thus been "trusted" by the producer; there has arisen a "time obligation," a future payment. Or the manufacturer may at once pay the producer with cash, procuring the cash by a loan from the bank, which he promises to repay after the goods are manufactured and sold. In this case he has used his credit with the bank instead of with the producer of the raw materials; but it is obvious that the nature of the operation is the same. A wholesaler or retailer may likewise purchase the goods he wishes to sell, on time, or on funds borrowed from a bank, as the case may be, agreeing to repay the loan after the goods are sold.

Mercantile Credit is to be distinguished from Capital or Industrial Credit by the character of the business which employs it and the nature of the use to which the funds are put. A characteristic feature of Mercantile Credit is that it usually runs for a short time, whereas Industrial Credit is usually extended for long periods. Mercantile Credit is represented by promissory notes and bills of exchange rather than by bonds or stock certificates.

Personal or Individual Credit obviously takes its name from the fact that it is connected with individuals rather than with public or private corporations. It is the means by which an individual may secure goods for consumption purposes without an immediate payment of cash. The laborer who settles his bills on the weekly pay day, the salaried man who pays by check at the end of the month, and the farmer who settles his account at the village store when he sells his crops are cases in point. Personal Credit is distinguished from other credit in part by the character of the security furnished by the borrower and in part by the use that is made of the things borrowed. The basis of the security is an indirect one, consisting primarily, not of actual property in hand, but of a recognized earning power from personal or professional services. The things borrowed are generally used for immediate consumption rather than for further production. Such credit is therefore often called "Consumption Credit." It is also sometimes spoken of as "Retail Credit," because it is used primarily in retail transactions. This, however, is confusing, because such a term might mean the credit of the "retailer" himself.

Personal Credit is usually extended without requiring a deposit of collateral as security and even without a written promise to pay in the future. A promise is, however, implied, and the entry on the books of a retail store is the evidence of the credit transaction. "Book Credit" is a name commonly used in this connection; but this name describes

not so much the character of the credit operation as the manner of "evidencing" the credit transaction. The credit on the books is an evidence that a personal credit has been granted.

The fifth form of credit has been called Banking Credit. As is well known, banks furnish funds to borrowers of every description; it is to the banks that one in need of credit naturally turns. But by Banking Credit is not meant the credit extended to individuals, corporations, merchants, and governments. Such forms of credit fall within the classifications given above. The essence of Banking Credit may be discovered only in the answer to the question, Where do the banks procure the funds which they loan to the business world? These funds are procured in part from the banks' own capital, and in part from the funds that have been left with them by individual depositors; but in the main it is through the use of their own credit.

A bank uses its own credit in much the same way as does an individual. A man who is responsible morally, who has a reputation for business honesty and ability, and who has security in the form of commodities that enter into trade, is able to borrow on his credit. He uses his good name and his property as means of securing funds for immediate use. A bank likewise, if it possesses the confidence of the community, is able to extend its business by means of its credit. The simplest use of its credit is found in the entrusting of funds by depositors with the bank — for safe-keeping or use,

as the case may be. There is a more important way, however, in which our large commercial banks use their credit. A bank with \$100,000 cash on hand is able by means of its credit to do a business equal to five or six times this amount. This is accomplished through borrowing on its credit. Just as a government borrows when it issues paper currency, so a bank borrows when it creates obligations, either in the form of bank notes or deposit accounts against which checks may be drawn. The ordinary commercial bank usually owes on demand several times the amount of its cash. A bank is safe in thus extending its obligations so long as the management is efficient and the resources other than cash are ample. There are some special problems involved in the use and control of Bank Credit, but in essence it does not differ from the other forms of credit that have been enumerated.

Viewing credit apart from particular groups of persons or organizations, such as governments, corporations, wholesalers and retailers, banks, and private individuals, two distinct types of credit may be distinguished, namely, commercial and investment credit. This classification is of the foremost importance from the standpoint of economic analysis and a clear understanding of the principles underlying the various forms of banking operations.

Investment credit is that which is used in the financing and development of business enterprises such as railroads, factories, workshops, stores, farms, and mines. The funds borrowed are invested in fixed or durable forms of capital



goods, as distinguished from consumptive goods. In consequence, the borrower does not expect to be able to repay the loan within a few weeks or months; rather, he plans to pay the principal of the loan out of the accumulated earnings of the business in the course of several years. The lender, similarly, regards such a disposal of his funds as permanent; hence the term *investment*.

Commercial credit, on the other hand, is used in financing the manufacture and marketing of goods, and it has to do only with consumptive goods. It is only another name for the mercantile credit described on a previous page, viewed from another angle—that of the use to which the funds borrowed are put. Unlike the borrower of investment funds, the borrower here wishes to use his funds only temporarily. A concrete case will serve to illustrate the difference: A borrows, let us say, \$10,000 and purchases a stock of goods with the money. Two months later he sells these goods for \$11,000, or at a profit of 10 per cent. The goods purchased thus furnish the direct means of liquidating the loan. The borrower for investment purposes, on the other hand, invests the \$10,000 in a factory. He does not contemplate selling the factory within a few weeks or months. On the contrary, he expects to use the factory for many years in the manufacture of commodities. It may take ten years or more before the accumulated profits will permit the repayment of the principal of the loan. The latter is a long-time process, requiring years for fruition; the former a short-

time operation; carried to completion in a few weeks or months. It is by means of the former that industries are developed and continued; it is by the latter that the manufacture and marketing of goods are accomplished, that commodities are transferred through purchase and sale from the original producer to the hands of the ultimate consumer.

# X

## SPECULATION <sup>1</sup>

HARRISON H. BRACE

As financial transactions grow more complicated to meet the demands of modern business, speculation unorganized and organized emerges. We enter now the field of prejudice. Speculation is by many still believed to be inherently wrong and to lead to misery. It is therefore necessary to consider the inherent meaning of speculation. Everybody in the business world is in a sense a speculator, for everybody endeavors at one time or another to forecast the changes which take place in buying or selling in order to profit or protect himself. Not only is this no discredit; but in a world of chance and risk it is the mark of wisdom. Says Mr. Harrison H. Brace:

He who would abolish chance from human affairs will have an impossible task. The truths that underlie the world may be imagined; but when we come to practical affairs, we find that there is an element of risk in all things. The first hunter who sought to entrap game found that his catch at different times was unequal. The agriculturalist is engaged in a calling in which there is certainly a great amount of risk. Such factors as drought, moisture, and other elements which determine whether crops shall be good or bad are

<sup>1</sup> "The Value of Speculation." Houghton Mifflin Company, pp. 4-6.

governed, many of them, by the purest chance. In undertaking any business enterprise, the careful business man in his calculations always allows for the risk which he well knows that he must face.

It is natural that the world should seek to eliminate this risk; and much of the progress in the sciences and practical arts is due to increasing knowledge of the comparative risks of different courses of action. By studying every factor necessary to the accomplishment of a particular task, the head of an industry is able to select that course which will be least fraught with danger.

But the most expedient method, even after it has been carefully selected, has risks associated with it which cannot be eliminated and which must be guarded against by some form of insurance or a system that is analogous to insurance. There are such perils as those of fire, storm, and death which are guarded against directly by insurance, the method being to spread them over a greater area. Thus risks are so distributed that losses in one area are compensated by insurance premiums in another. The different forms of insurance that have been invented are remarkable for their number and variety; nevertheless, there are many important risks that cannot be directly provided for in that way, but in the case of which a system analogous to that of insurance must be used. These are the general risks of business, which are infinite in the variations that they assume.

Some of these general risks, which cannot be borne by insurance, can yet be undertaken by a class of business men who specialize as speculators. These are the risks of fluctuations in prices due to changing conditions in different periods of time, and the handling of them constitutes the most important function of the speculative exchanges. In the case of the prices of the majority of commodities, these speculative risks are bound up with general business conditions in such a way that they cannot be separated from the other causes of expense and assumed by any special class. But by speculation, and particularly by the machinery of organized speculation, many of these risks can be thus segregated and transferred.

It should be noted, however, that while the function of the speculator is similar in many respects to that of the insurer, the method by which his influence is applied to the world of commerce is quite different. It is not through a contract whereby he agrees to indemnify the public against loss that the speculator acts; but he performs his function by buying and selling in the market. When he believes that prices are low, he purchases. When he believes that prices are high, he sells. This he does in the pursuit of his own selfish interests; but, in so doing, his purchases and sales have an important influence upon prices, and indirectly upon the whole field of commerce.

Thus it is readily seen that the action of the speculator affects only indirectly the demand and supply of actual

commodities and securities. What he buys at one time as a speculator, he must at some other time sell; for the immediate effects of his speculations are neither to produce commodities nor to consume them. He neither adds to the permanent supply nor subtracts from it. But for the moment, at the time of a purchase or sale, he exercises an important influence upon the temporary demand and supply, with far-reaching effect upon ultimate production and consumption. Or, to look at the question in a slightly different aspect, he distributes the demand and supply over different periods of time.



# XI

## WALL STREET<sup>1</sup>

LYMAN P. POWELL

The New York Stock Exchange is the dynamo of business life. It is possibly the nerve center of the business world. Everybody is apt to have opinions about it, however questionable his title to the same may be. Choice epithets like "hell-hole," "gambling hell," and the "Inferno of speculation and embattled greed," have been flung at it. One man I know holds it directly responsible for all our ills of business, though he admits that he has never read a book upon the subject, or had dealings with the Exchange, or paid a visit to it.

To some the Exchange in actual operation looks like Bedlam. Men of manifest cultivation and good breeding give the impression of behaving like the irresponsible and the ill-bred. Howling mobs shout themselves hoarse. Shrill cries of bulls mingle with the "boos" of bears. One tears like mad from crowd to crowd. A hand shoots up above the heads around and uplifted fingers wigwag back some

<sup>1</sup> Reprinted by permission from *The Congregationalist*, September 18, 1913. Since the Stock Exchange is the heart of Wall Street, it will perhaps be adequate to describe life on 'Change.

answer. The "mix-up" is at one post this time, at another the next. Once I was trying to evolve some order out of the chaos for an appreciative companion on his first visit, when a bit of horse play, merely a respite for ennui or weariness, robbed my task of fruitfulness.

But to the understanding mind every detail, however obscure, has a meaning of its own. Nothing is beyond comprehension. The most hopeless complexity is simplicity itself. What seems chance is really system. Order reigns over apparent disorder. Big issues are at stake. Fortunes are perhaps changing hands. Securities are selling that may be the doing or undoing of a great railroad. Individual honesty is unquestioned. Business is done by word and memoranda. Even a wink may involve a million dollars, and when next day legal settlement is made, no man's memory plays him tricks, no man's lower self takes advantage of a possibility, no man disavows the bargain or seeks to annul the contract. Business ethics in the dealing of one man with another reaches its climax on 'Change.

The Exchange is nothing but a market place. Men of responsibility with securities to sell are seeking buyers where buyers are most likely to be found. Nobody is obliged to buy. If speculation is not infrequent, the reader may well remember that it was not a "bull," but an economist, Prof. E. R. A. Seligman, who said that "speculation tends to equalize demand and supply . . . and subserves a useful, and in modern times an indispensable, function." The Ex-

change simply furnishes a meeting place for buyer and for seller in big business.

The organization of the New York Stock Exchange is easily described. There are 1,100 members. They form a club like the Union League or the Woman's Suffrage Association. They have never sought nor cared for state incorporation. That would bring obligations, of which they are sure they already have enough, and interfere with that informal and effective discipline which makes any club serve its special purpose.

To get into a club where securities are of as great value as those bought and sold on 'Change is difficult, as it ought to be. The applicant must induce some present member to sell his seat, and the price, now under \$50,000, has sometimes soared close to the \$100,000 mark.<sup>2</sup> He must besides pay an initiation fee of \$2,000 and \$100 a year as dues. His name has to be posted for two weeks. Two members must stand sponsor for him ethically and financially.

He is ever after subject to such severe oversight as few outside of 'Change believe or experience. In every sense he pays a high price for his new club membership. The Governors may tap his telephone, examine his or his partners' books at will, dictate with whom he may or may not transact business, and even determine the circumstances in which he may do business at all.

<sup>2</sup> Early in 1919 a seat sold for \$94,000 and the latest sale in the autumn of 1919 was for \$87,000.

There are compensations. He may fellowship with one of the most interesting and intelligent group of men in the whole world. Here he finds kindness and generosity, charm and versatility, cosmopolitanism and specialization, good fellowship and high honor.

The new member has a wide range of choice of activities. He may become a "specialist," or a "two-dollar broker," or an "odd lot broker." He may join the "bond crowd," which rendezvous directly underneath the visitors' gallery, or the "arbitrageurs" along the south wall, eager to put money in their purse by making the most of the three minutes which it takes to cable to London and get word back again. He may be a "floor trader," hurrying from one post to another, asking no quarter and giving none in the sharp strife of wits. He may sometimes "bull," and sometimes "bear" the market.

The new member has today new ethical responsibilities. We have arrived at last at the break between the old and the new ethical formation. We have tried in business and out to get on with the old ethics of an antiquated individualism, and it no longer works. The expansion of credit, the interlocking of business and government, the multiplication of mechanism, have left individualism far behind.

The Stock Exchange has not been guiltless. Its very nature as an open market place has invited sinning on the largest scale. While the days are past when by some it was counted proper to fool the public at every turn, to "make

a market " for new securities at any cost, to turn the floor into a carnival of lawless speculation, to call in the printing press to manufacture stocks and bonds while gamblers feverishly waited, there are evils still to be corrected, improvements to be made. When it is possible to create intangible securities indefinitely to represent tangible railroads and measurable bushels of wheat, even the billion line may be crossed, the imagination grow bewildered, Frankensteins of the mind's creation become masters of the situation, and when we would do good, if we but understood, we may do evil, with consequences far outreaching our design or knowledge. Owen Johnson hits the mark in "The Sixty-first Second":

"Is he a crook, after all?" said Beecher, flinging down the extra.

"No, he is not a crook," said Gunther quietly, repeating the words with slow emphasis. "He is a speculator, a great speculator, and he has been made the victim of greater speculators who covet his territory."

Improvement has for years been making. The Exchange is one of our few institutions peculiarly responsive to mature public opinion. It has had to make haste slowly. It could not outstrip public sentiment. But the time has come for speeding up, and the best men on 'Change are alive to the necessity. The Hughes Investigation Committee, which sensibly recommended the self-reformation of the Stock Exchange, the Pujo Congressional Committee, which set itself apparently to prove that the Exchange is the center of a

spider's web of interlocking directorates representing twenty-five billions of dollars subject to the control of 180 men, and brought in both a majority and minority report, and the fulminations and legislation emanating from Albany, were all symptomatic of a crisis in public thinking which was fairly faced. Improvement is becoming fact as well as theory. The best sentiment on 'Change, which is the true sentiment, had the supreme opportunity in the history of the institution to become the only sentiment and made much of it.

Fortunately, the Exchange in general feels the stirring of the new ethical atmosphere we all are breathing. It appears disposed in these days to rise, like Cæsar's wife, above suspicion. Publicity is courted with new ardor. Crashing corners and crumpled fortunes are gone. The great plunger has made his last great plunge, and has not left even one conspicuous dodo to represent him in Wall Street. "Matched orders," difficult to prevent because they can be managed by one clever mind, have been forbidden in terms which give assurance that stock transactions will hereafter involve actual transfer of securities from one owner to the next. Securities that should be listed find their way more easily to the right post, and there is no longer an unlisted department. The bucket shop and the blind pool have been put out of commission. Over-capitalization, the oft-times cruel creation of fictitious values, Salt Trusts, Hocking Coal episodes, which excited as much indignation on 'Change as off, are all coming to heel as public conviction reinforces



Exchange purpose and makes it possible for the best men on the floor to perfect the machinery and purify the atmosphere of our supreme money market.

The Exchange has objected to state incorporation. It has nothing either to sell or to buy; it merely furnishes a place to sell and buy. It wants no general banking powers, such as legislation offers. It courts no more responsibilities than it already has. If one legislature confers a charter on the Stock Exchange, another may amend the same to the instability of a business averaging for an estimated period at least \$23,500,000,000 a year. Experts say that where the ordinary man does not understand even the stock quotations which appear every morning in the back pages of his daily paper, it would be absurd to take away from the experienced Board of Governors the power to improve the delicate mechanism with which they are familiar, and give it over to a legislative committee possibly in part ignorant, and at best not wholly expert.

To incorporate would be to eliminate every incentive to self-discipline. To give the courts review of cases now settled by the Governing Committee would be to expose the members of the committee to various risks of litigation, to lengthen out to years cases now settled in an afternoon, and to invite the use of injunctions and stays of proceedings with their unsettling and unsatisfying consequences.

The vigilant eye of publicity without the inexperienced hand of governmental interference would seem to be the

only safeguard as yet needed of the vast public interests every day on 'Change. For the Exchange is feeling keenly the flareback of the new ethical momentum. By-products and slag there will always be of speculation, but with the passing of the old days of regarding public properties as private and of committing in a corporate capacity misdeeds that would be counted crimes in the individual, the Exchange is gradually becoming to all what it has long been to many—"a barometer of trade, an incentive to corporate expansion, and a medium for constructive investment."

## XII

# BUSINESS CLEARLY EXPLAINED

JOSEPH FRENCH JOHNSON

I. *Definition of business.*—In everyday speech the word “business” does not possess a clear-cut meaning. It is applied rather vaguely to trading and manufacturing occupations as distinguished from the arts and professions. For the purpose of our study business may be defined as follows:

*Any occupation in which men, at the risk of loss, seek to make money by producing commodities for sale, or by buying and selling commodities, or by hiring the services of others for utilization at a profit.*

Or more briefly:

*Business is any gainful occupation of which profit is the goal and in which there is risk of loss.*

This definition, it will be noted, excludes many so-called gainful occupations. The farmer, for example, would be said to be in business only in so far as he hires labor and markets his products. As he enlarges his operations and hires more men to work for him, he becomes more and more a business man because he is more and more concerned in such problems of business as are involved in accounting,

management, salesmanship and credits. But the ordinary small farmer is quite properly regarded as not being in business.

Evidently a country storekeeper is in business, for he buys goods in the hope of selling them at a profit and takes the risk of not being able to do so. A young clerk in his employ on a salary takes no business risk and is not thinking about profits; hence, strictly speaking, he is not a business man. But he is part of a business machine and is learning how to do business, and so is commonly thought of as being in business.

The owner of a factory who buys raw materials and hires labor is taking risks and is in business. Some of his employes are artisans or workers with tools and machines; they are learning nothing about business and are not thought of as being in business. Other employes may be connected with the purchase or sales department, and may have to assume distinctly business responsibilities; so we think of them as being in business. The bookkeeper who keeps the records of the purchases and sales, the output, the costs, etc., stands on the border line between business and manual labor. As mere bookkeeper he is little more than a machine, but as a potential accountant, able to improve his employer's system of bookkeeping and to warn him against the danger of increasing costs, he steps into the ranks of business men.

In general, the great mass of laborers in manufacturing establishments and on our railroads, whose work is mainly

with their hands, are not thought of as business men altho they are connected with business enterprises. They have no part in the solution of problems involving risk and profit and are not being trained for such effort. They have "jobs" in business concerns, but they assume no business responsibilities. On the other hand, every business enterprise employs men upon whom the employer unloads some of his responsibilities. Such men, whether they be bookkeepers, cashiers, salesmen or department managers, are in direct contact with business problems and are regarded as business men even tho their own money is not at risk.

2. *Profit and risk essential elements.*—It is not important to decide whether this or that man is in business or not, but it is important to understand that the word business necessarily implies a balance sheet upon which the two most important words are profit and loss. If profit is not the goal, then the enterprise is not a business one.

By the profit of a business enterprise is meant the surplus left over after all the costs or expenses have been paid. A small storekeeper doing a cash business must sell his goods at such prices and in such volume as will enable him to pay the wages of his employes, a fair wage to himself, rent to his landlord, interest on capital invested, and all other expenses. If, at the end of a year, his inventory shows that his stock of goods has not shrunk in value, and his outstanding debts are no greater, the increase or decrease of his bank balance during the year will disclose his profit or loss.

Profits are the goal of business. If the socialists had their way and legislated capital and profits out of existence, what we now know as modern business would completely disappear. If we make a closer study of profits we shall see how profit is earned and the obstacles that must be overcome. Later on it can be shown that the struggle for profit which we call business has been a tremendous force in the development of human capacity and for the advancement of civilization.

3. *Importance of money and price.*—At the present time almost all goods are made to be sold. Specialization and the subdivision of labor have been carried so far that few men produce the things which they themselves consume. Old people recall the days when farmers had little need for cash, for they bought little at the stores. Their own farms produced most of their food and the material for some of their clothing. Today the average farmer in the United States devotes his energies to the raising of a few crops. He sells these for money and buys his food and clothes very much as does the city dweller.

So it happens that money and prices have become very important matters. What men really want are goods or commodities, things which possess what we call value. To get these is the ultimate object of work, but under modern conditions the immediate reward of work is money, for with money the things wanted can be purchased. By the price of a thing is meant the amount of money it sells for. Evi-



dently the subject of money and its purchasing power is of great importance to all people.

Since business men must figure their profits in money and cannot make a profit unless they sell at a price higher than they bought, it is evident that the forces which control the purchasing power of money must not be ignored by the wide-awake business man. That is the reason why the subjects of money and prices and credit are fully treated in the Modern Business Texts.

4. *Business must satisfy human wants.*—Altho the business man is seeking to make a profit for himself, he must nevertheless think more of others than of himself. He can earn his profit only thru his ability to please others. If he is a trader he must buy and sell things that people want. He is not a dictator and cannot make people buy his goods merely because he himself thinks they are better than the goods people call for. So the business man must study human wants and caprices. He may not approve of their tastes or of their judgment, but if he wishes to make a profit, he must be ruled by them. He may be a manufacturer of shoes and know very well that high heels make walking painful, but he will not let what he knows about physiology and anatomy shape the model of any woman's shoe — unless possibly his wife's.

P. D. Armour once said that he chose to deal in pork because it was an article of food that nearly everybody wanted in some form or other. A business dealing in a

commodity that is in universal demand, such as wheat, flour, or cotton cloth, is capable of tremendous development. The profit on each ham or each barrel of flour or each gallon of oil may be small, yet the gross profits may run into the millions because of the large sales.

5. *New wants constantly appearing.*—As everybody knows, the last twenty-five years of the nineteenth century were characterized by a remarkable development of machine production. Invention after invention lowered costs of production and made possible a great increase in the output of commodities. One man with the aid of modern machinery is able to produce one hundredfold more than his grandfather could have produced fifty or sixty years ago.

While this industrial progress was taking place, especially between 1880 and 1896, the general level of prices was falling, and as goods became cheaper one often heard the prediction that the time was fast approaching when all the goods that man needed could be produced by two or three hours of labor a day. The increasing efficiency of the machine seemed destined to reduce the demand for hired labor to a minimum, and in consequence dire prophecies, especially among persons of socialistic or radical tendencies, were heard with regard to the future of the laboring classes. The radicals held that the machine, called capital by the economists, was bound to absorb an increasing proportion of the world's wealth and that less and less would be left for the poor working man.

Happily this gloomy prophecy has not come true. It was based upon a fallacy, namely, the assumption that man has a definite number of wants and that when these are satisfied he is content. As a matter of fact, man is a bundle of an infinite number of potential wants. This is one of the important characteristics which distinguish man from all other animals. A certain amount of food and drink, a little play and a chance to run and climb a tree, and now and then to "lay" for a mouse or a chipmunk, will bring complete content to the most high-bred tabby in any cat show. The wants of all the lower animals are fixed in number, and when these are gratified the animal is ready for rest and sleep.

But man is insatiable. As his power over nature grows or as his wealth increases, his wants multiply.<sup>1</sup> When poor and half-nourished his idea of heaven is a place where there is an abundance of roast beef and vegetables. A poor and ignorant Yankee farmer was once asked what he was working for. "Salt pork and sundown," was his illuminating reply. He wanted the day to end that he might get something to eat and go to bed. If that farmer should inherit a fortune and go to New York City to live, it needs no prophet to foretell what would happen to his taste for salt

<sup>1</sup> Man is the whole encyclopedia of facts, the creation of a thousand forests in an acorn; Egypt, Greece, Rome, Gaul, Britain, America lie folded already in the first man.—RALPH WALDO EMERSON.

pork or that sundown might become a signal for something else than going to bed.

6. *The overproduction bogey.*—Fortunately for the business man as well as for the man who wishes to sell his services, there is not the slightest possibility that the world will ever be overstocked with the things that men desire. General overproduction is impossible. The word overproduction has no significance in business except when it is applied to a single commodity. The automobile, for example, is making imminent the overproduction of horses, wagons and harnesses. The increasing use of gas and electricity might easily lead to a glut in the lamp market. Some people prefer rice to potatoes, both having substantially the same value as food; if this taste for rice should spread rapidly thruout the country, then there might be for a time overproduction of potatoes.

Since the business man is striving to make a profit, he must constantly be on his guard, whether he be manufacturer or trader, against overproduction or overstocking in special lines, and seek to anticipate the changes of demand to which the market is susceptible.<sup>2</sup> He need have no fear that any increase in the production of goods will so satiate the human race that there will be no desire for his services.

<sup>2</sup> Schopenhauer, the German philosopher, rests his theory of pessimism on the capacity of human wants to multiply. He held that misery was the ultimate and inevitable lot of the human race. A man is unhappy in the presence of an ungratified want. Happiness is possible only when the want is gratified, but the moment

As production increases, wealth will increase, and the demand for goods will be not only greater but more varied.

7. *Importance of salesmanship and advertising.*—The reader has gathered from the two preceding sections not only how necessary it is for the business man to study the wants of his customers, but also how important it is that he be able to give them just what they want. To sell a man anything you must first know what he wants and then be able to convince him that you can supply it at a reasonable price. In the old days of so-called community production and marketing, when there were no railways nor steamships, both production and trading were usually on a small scale and the business man knew most of his customers personally. Now, however, production and marketing are world affairs. A manufacturer in a Massachusetts village may sell in all the continents of the globe. Thus it happens that marketing has become one of the most important of business problems. No man can succeed in business if he ignores its difficulties and its perils.

Advertising and salesmanship, which are vital parts of the marketing process, have special importance in any business which deals in something new. The salesman and the advertisement must rouse in people a desire for that new thing. The manufacturer cannot afford to wait for the

the want is gratified two other clamorous wants take its place, so that the poor man is really more miserable than when he thought he was about to be happy.

slow development of his industry that will ensue if he lets the advantages of his product be discovered gradually as a result of its use among a small number of customers. Hence he makes it known in every possible way, and for that purpose spends money in a fashion which his grandfather fifty years ago would have regarded as astounding extravagance. Salesmanship and advertising are in great part responsible for the spectacular development of the automobile industry.

8. *Three great classes of business.*—For our present purpose it seems proper to divide business into the following three classes:

First,—The production and sale of goods. This kind of business is commonly known as industry, and embraces all kinds of manufacturing and the so-called extractive industries, mining, agriculture and lumbering. While any individual farmer may not be classed as a business man because of the small scale upon which he produces, yet agriculture as a whole is properly regarded as an industry.

Second,—The purchase and sale of commodities. By commodity is meant anything which has value and is therefore salable. This kind of business embraces those which are usually grouped under trade and merchandising.

Third,—The purchase and sale of services, whether the services of human beings or the uses of material things. This class embraces many different kinds of human activity. The banker may be regarded as a dealer in that valuable



but immaterial thing called credit, or we may without splitting hairs say that the charge he makes when he discounts a promissory note is for the service the bank renders. A theatrical manager who hires the services of players is a business man, but the players are not. The railroad, steamship, telegraph and telephone companies sell services. The city landlord sells to his tenant the right to use an apartment; strictly speaking, he is selling a service.

This use of the word service may seem technical to the reader, but it is not difficult to understand. A man renders you a service whenever he aids you in getting what you want. Any man who makes a "business" of rendering services to others and is looking for a profit and taking a risk, is in business.

9. *The Professions.*—There are many gainful occupations that are not classed as business for the reason that profit making is not their primary aim. The most important of these are the professions and the arts. The three best known professions are law, medicine and theology, often referred to as the learned professions. In recent years, other callings have acquired equal claim to rank as professions, for example, engineering and architecture.

A professional man finds his reward not merely in the money he earns, which comes to him usually in fees and retainers, but in his love of the work, in its dignity and importance, in his personal independence, in the distinction he achieves because of his skill and intelligence, and in the



respect he commands from his colleagues of the same profession.

The prerequisite to success in a profession is intellectual power. If success in any calling depends more upon manual skill than upon brains, it is a trade, not a profession. For example, a dentist who is merely able to extract teeth and to fill decayed cavities is little more than a mechanic. To be entitled to professional rank he must know as much as a physician about the various diseases that attack the teeth and the gums, and must be able to treat them in a scientific manner. To impart this knowledge as well as to give opportunity to attain mechanical skill, is the aim of all our best dental schools. Hence dentistry may claim to rank among the professions.

The professions differ from business occupations in that they have definite codes of ethics which prescribe and limit the conduct of practitioners in the various contingencies likely to arise. As is well known, it is unethical for a professional man to advertise, for the only thing he can advertise is his own ability. It is all right for the merchant to extol the virtues and qualities of his goods, or for a druggist to claim that he handles only pure drugs, but evidently it would be bad taste for a doctor to boast of his wonderful cures or for a lawyer to brag about his success in the courts. So the young man entering a profession evidently has a hard time of it in the beginning. He may send out cards announcing that he has opened an office, he can join clubs

and societies and make all the friends possible, but he must beware of any conduct that seems to have an advertising aim. Otherwise, if he is a lawyer, he may be spoken of contemptuously as an "ambulance chaser," or if he be a young physician, he will be looked upon with suspicion, will possibly be called a "quack," and will be given no "boost" by the older members of his profession.

Members of some of the professions, however, are wise if they make a study of business problems. Many of our most successful lawyers, for example, are constantly occupied with cases which cannot be thoroly understood by one who is ignorant of business principles and customs. The engineer or the architect who knows nothing of corporation finance or business law or of cost finding will never rise to the highest rank in his profession.

10. *Artists.*—In all these respects artists are very much like the professional men. A sculptor, a painter or a poet cannot brag about his work. The prerequisite of success in art is taste, and it would certainly be evidence of very bad taste for an artist to proclaim his superiority to the world.

The artist, however, is not altogether debarred from the advantages of publicity. Publishers proclaim the worth of the poet, and dealers advertise an exhibit of the creations of the sculptor and the painter, while theatrical managers are frequently most gorgeous and lurid in their claims for the brilliancy of the stars behind their footlights. Pub-

lishers, art dealers and theatrical managers are in business. It is proper for them to advertise. But the artists themselves, if they are to be thought real artists, must not seem to be courting publicity. Possibly this view may come as a shock to some so-called artists, yet it is perfectly true. But then artists will have no occasion to read this book.

11. *Is business a profession?* — If we analyze the so-called learned professions, we find them distinguished by these two characteristics: first, in their practice brains are far more important than technique or manual skill; second, education in certain sciences is essential to success. No calling deserves to be called a profession if its tasks and problems are so simple as to be within the grasp of any man of ordinary ability and education. The problems of a profession can be correctly solved only by a man who has had thoro training in science. The physician, for example, apart from his knowledge of *materia medica*, must be well grounded in anatomy, physiology, chemistry and bacteriology. Psychology should be added to this list, altho our medical schools do not appear to be alive to the importance of this science. The well trained lawyer should be disciplined in the sciences of pure logic and of jurisprudence, in ethics, in the evolution of law and in the theories that explain and justify legal doctrines. When the physician or lawyer is not thus trained, the young lawyer merely knowing the statutes and procedure of his jurisdiction, and the young physician knowing only drugs and symptoms, both are

empiricists and do not deserve to be called professional men. They resemble the carpenter who works by rule-of-thumb.

Certain business callings in recent years have risen into the professional ranks. Before the year 1900 few public accountants would have claimed that their occupation was professional in character. The accountant was then often referred to as a "bookkeeper out of a job." But the really expert accountants of the last century knew very well that their difficult tasks could not be performed by the ordinary bookkeeper. They realized that the accountant could not do his best work unless he knew a great deal about the business man's problems. It has been largely because of the accountants' belief in the high character of their work that university schools of commerce have recently been established in all parts of the country, in which men are trained in all the sciences underlying business as well as in the theory and practice of accounting. For the same reason many states have passed laws providing that no man shall style himself a "certified public accountant" until he has successfully passed examinations conducted by the state authorities. In view of these conditions the accountant may fairly claim that his calling is one of professional rank.

Other business occupations, notably advertising and the work of the credit man, are rapidly moving in the same upward direction. Entrance into these callings is not yet guarded by statute, but many of the leaders already realize the need for preparatory training, and some of our univer-

sity schools of commerce are doing their best to supply it.

The American banker is also beginning to discover his need for men who have had scientific training, for the problems of banking are becoming more and more intricate and difficult. The time seems to be approaching when bank presidents and managers cannot be picked haphazard from lists of men who have had successful experience in trade or manufacturing. Not many years ago a prosperous farmer was often elected to a bank presidency. But a banker is becoming more and more a specialist, and competition will surely compel him to obtain mastery of the sciences underlying the phenomena of economics, credit, money and international, as well as national, finance. And then we may fairly claim to have professional bankers.

Some of our banks are showing preference for university graduates and are conducting courses of instruction for their employes which are scientific as well as practical, but these banks are exceptions. Not until it is generally realized that office experience cannot take the place of scientific training can banking justly be called a profession.

The business of transportation is one of increasing importance and difficulty. Many of our railroad managers have worked up from the bottom merely by the knowledge they have gained in the service. In the future this working up will doubtless be more difficult unless the ambitious employe does a lot of hard studying and thinking in his leisure hours. The successful management of a great railroad,

while demanding great executive ability, also calls for a profound knowledge of economic and industrial conditions. Some day it should rank among the professions.

12. *What constitutes success in business?* — Since profit is admittedly the aim of business, it would logically follow that a business man's success can be measured only by the amount of money he makes. As a general statement this is perfectly true, yet erroneous inferences and applications are quite possible.

The manager of a New York City bank may raise the net earnings of his bank by one million dollars a year and yet not really be so successful as a small country banker who increases his bank's revenue by only ten thousand dollars a year. In the same way the business of a city merchant may annually expand by a million dollars and yet he may be properly regarded as less successful than a small country merchant the volume of whose business is increasing at the rate of only ten thousand dollars a year. The city banker and merchant have practically unlimited opportunities of expansion, while the country banker and merchant are hemmed in by a narrow environment. Each of the latter may have done all that could possibly be done to increase his business, keep down costs and increase net revenues.

Suppose that two brothers go into business, one going to the city, the other preferring to remain in the home town. The one in the city has a fortune of a million dollars at the end of twenty years, while the country brother has accu-



mulated only fifty thousand dollars. It would be unfair to conclude that one was twenty times more successful than the other. We must not forget that while money profit is the aim of business, yet men are influenced by many other motives when they choose a business or its location. Money is the tangible reward of successful business, but money is not everything that is worth while in life. Doubtless thousands of merchants potentially as capable as the brilliant Marshall Field or A. T. Stewart, are conducting successful businesses in the small towns and cities of the United States. To many of these the larger pecuniary rewards of successful enterprise in great cities possess no charm or temptation.

To judge wisely therefore of a man's success in business, we must know: First, has he accomplished what he himself set out to do? Second, has the volume of his business been as large as was warranted by its location? And, third, has its management been so sound that profits have been as large as could reasonably be expected?

13. *Dignity and importance of business.*—To people who are not well read in history and fiction it might seem strange that an author should think it necessary to prove that business is an important and worthy occupation. To them it will seem perfectly obvious that business is both important and most worthy, yet only a generation ago if a boy chose to be a lawyer or a doctor or a preacher his parents took pride in the fact, and viewed with more or less unconscious pity those friends whose sons had gone into business.

In Europe fifty years ago business was thought something altogether too vulgar to engage the attention of the nobility, and two thousand years ago, when business was comparatively simple, especially among the Greeks and Romans, business matters were attended to either by slaves or by a class of citizens much despised. To devote one's life merely to the making of money was deemed ignoble and unworthy. How much finer to be an orator, a warrior, a poet, a painter or a sculptor!

It would be a waste of time to make comparisons and try to determine whether one calling is finer or nobler than another. Men are born into the world with different capacities, and it should be the duty and ambition of each to do that work which he can do best, and to put all his soul into it, whether he write poetry, paint pictures, play the violin, or buy and sell groceries. Then each will deserve respect and honor. This truth is now clearly recognized in Great Britain, many of whose great business men have been knighted, while in the United States our leading universities do honor to themselves by conferring honorary degrees upon men of distinguished service in trade or industry.

When we consider the fact that the rendering of services to humanity is an essential element of business and that no business man can long be successful if he fail to render service, we must admit that a great business man deserves honor and respect just as does a great lawyer or physician. The adjective "commercial" cannot be justly used to imply

reproach or contempt. To be sure, business may be done in dishonorable fashion. There may be lying, cheating, misrepresentation. But these evils are also found in the professions. In the long run, both in the professions and in business, they work against great success. Business as a calling cannot be impaled because some grocer uses loaded scales or because now and then a banker embezzles the funds of his trusting depositors.

Criticism of business is usually directed most violently against the trading classes. It is assumed that the merchant is a parasite producing nothing and living off the necessities of the community. That this assumption is a fallacy is clearly shown in the Modern Business Text on "Economics of Business."

Modern methods of distributing commodities are the product of competitive forces and are doubtless imperfect in many respects, yet the merchant who is doing his best to satisfy the wants of his customers and is doing it honestly, is performing a real service for society and, as a rule, is not overpaid for it.

Business has made our civilization possible. If we should return to methods of trading in vogue a thousand or more years ago, even tho the industrial world retained all of its machinery and processes, our national wealth would disappear in a few years. The farmers' great markets would vanish and production would come to a standstill. The debt society owes to business is so obvious and so great that there

should be no excuse for an author to devote a page to a discussion of this sort. But there is an excuse. It is the ignorant and often vicious hostility to business frequently manifested, and the untrue assumption that our wealth is wholly the creation of farmers and factory hand-workers.

14. *Business as a job.*—Many employes of business concerns think and speak of their positions as “jobs.” To them the job means more or less disagreeable work for eight or ten hours a day. Their compensation may be on a weekly basis, in which case it is called wages, or it may have an annual rating and be called a salary.

The typical man with a “job” is very much given to thinking that he is overworked and underpaid; he is glad when the day is over, for the job means hard work and no pleasure.

He also has a habit of thinking that mere length of service entitles him to increased pay or to promotion to a better job.

He often is heard to complain about the big salaries that are paid to men who do not do half the work he does. He usually has a special grudge against his immediate superior, the man who directs his work. He is certain that he works harder than that fellow and that his work is not appreciated.

If a few months elapse without any increase in his pay envelope, he complains to his friends that his job has no future in it. You hear him say: “All the places down

there are already filled and there is no chance for a live young fellow like me. I want to get into some place where there is a chance to climb up."

The trouble with men of this kind, and unfortunately, they are numerous, is that they do not know what business means. They ignorantly think of themselves as business men, whereas they are mere routine job holders, thinking more about their pay than they do about the possibilities of their job, or of how they can make it helpful to them in places higher up.

There is a sense in which every business "job" is a gold mine. *The man who works for the gold in the job rather than for the money in the pay envelope, is the fellow who gets on.* Then, no matter how humble his job, he is learning the A B C of business.

But our typical "job man" is doomed to be a drudge all his days. Business is much more than a "job."

15. *Business as a fascinating game.*—Not till the reader has finished the twenty-four volumes of the Modern Business Text will he have at hand all the evidence justifying the foregoing sidehead. Yet we may give him a glimpse of the truth.

A game is ordinarily thought of as play, but when you analyze some of the most interesting games, such as baseball, tennis and golf, you will find in all of them what is called work when the element of interest is lacking. Seeking for the element of interest which makes the "work" a

pleasure, you will find it in three circumstances: first, the number of difficulties and obstacles in the way of successful play; second, in the joy the human animal takes in triumphing over obstacles, particularly if at the same time he has proved himself the better fellow; third, in the freakish behavior of the goddess of chance, which accounts for the charm of gambling.

All these interesting game elements are found in business, and your real business man, if he is in good health, gets as much pleasure out of his day's "work" as he ever did out of any game he played as a boy. In fact, some men get so engrossed in their business — which is only another way of saying they get so much satisfaction out of its conduct — that they devote practically all their waking hours to it and cannot be persuaded to give it up even after they have accumulated much more money than they or their families can ever need. Of course, this policy is a mistake. Not only is a man's health likely to break down if he overplays the business game, but he fails also to get the most out of life. He breaks one of the fundamental laws of psychology, that of variety, which is founded on the well-known fact that pleasures pall as a result of frequent repetition. Children unconsciously obey this law and are forever varying their games.

But business is such a fascinating game to the man who is really interested in its principles that many men keep on playing it to the exclusion of all other games, and are with



the greatest difficulty persuaded by their relatives to abandon it when old age comes on. Frequently we read in the newspapers about the death of some octogenarian of whom it is said, "He was at his desk only a few days before his death," or "He has not missed a day at his office in forty years." Young men cannot understand such interest and wonder why the old man with all his wealth still kept on working. They do not realize that to him it was not work. He loved the game and since death had to come, he wanted to die playing.<sup>3</sup>

<sup>3</sup> Vol. I, "Modern Business," pp. 37-60. By courtesy of the Alexander Hamilton Institute.

# XIII

## THE TRUST <sup>1</sup>

F. W. TAUSSIG

The trust company has often been called the omnibus of financial institutions. It deserves the name; for it often discharges many duties. It may serve as a commercial or a savings bank. It may act as an insurance company, a trustee or a financial agent, or a transfer agent for individuals or corporations, or even a receiver in cases of insolvency or bankruptcy.

But like our other business organizations the trust has been a development. For twenty years after the Civil War competition was regarded without question as the life of trade. As capitalization became enormous and profits fabulous, competition passed from the "cut-throat" stage into the "combination" era. "Big Business" was the result, and by the time Theodore Roosevelt came to the White House in 1901, "muck-rakers" were in full swing and pitiless publicity was beginning for trusts of many types.

President Roosevelt at last divided trusts into "good" and "bad," and to the latter gave no quarter. But he brought to them the historical point of view. He saw their background. He knew they were but one of many questions to be answered by the public. Before the Union League in Philadelphia, November 22, 1902, he said: "Time may be needed for making the solution perfect. But we have the power and we shall find the way. We shall not act hastily or recklessly; but we have firmly made up our minds that a

<sup>1</sup> "Principles of Economics, II," pp. 419-423.

solution, and a right solution, shall be found, and found it will be."

1. Attempts at combination and monopoly are as old as industry. In European countries, during the earlier stages of their economic development, such attempts were subject to prohibition and penalty. During the modern period the trend has been, until very recent years, to let them take care of themselves, competition being relied on to keep prices at a fair or normal level. In English-speaking countries it has hitherto been supposed sufficient simply to prevent the enforcement of agreements for combination. Under our common law, contracts in restraint of trade are void. They are not *per se* punishable; but they cannot be enforced in the courts. Just what constitutes a contract in restraint of trade, such as the courts will hold void, has been the occasion of nice legal discrimination. Some agreements which restrict competition are adjudged to be "reasonable," and the parties to them will be held to their contracts. Others are adjudged to be "unreasonable," and will not be enforced. The line of distinction is in principle clear enough: those agreements are bad which tend to bring a range of prices higher than that ensuing under free competition.

It is astonishing how effective this simple policy of indifference has been. Combinations, pools, and price agreements among manufacturers and dealers have been among the most common phenomena of modern industry. Almost invariably (unless bolstered up by some independent cause conducive to

monopoly control) they have gone to pieces of themselves. The persons forming them have been both shortsighted and covetous. It has often been the case that all would have made larger gains if all had stuck to their restrictive agreements. But each has been desirous of increasing his own particular gains, and each has been suspicious of his associates. The usual result has been that price combinations are no sooner made than broken, with much lament that there is so little honor among these quasi-thieves. Even where the would-be monopolists have held together for a while, competition from outside has soon caused their compact to crumble away. Usually the outside competitors also have been covetous and shortsighted, failing to see that their own entrance into the field tended to destroy the very gains in which they were trying to share. The truth is that few men, in business or in other doings, look beyond the present and immediate future. Had they a more resolute and intelligent eye to ultimate results, the policy of letting people try at monopoly, but refusing legal sanction to their monopolistic agreements, would have proved much less effective.

But in our own day the situation is changing fast, at least in many directions. Far-reaching plans and ultimate results play a greater and greater part in industry. Still more important is the fact that, as large-scale production spreads, the number of individual establishments diminishes, and the entrance of new competitors grows increasingly difficult. The attempts at combination become more persistent and in-

genious, and the efficacy of a policy of non-interference becomes more uncertain.

2. First among the modern endeavors in the United States to prevent the disintegration of non-enforceable agreements and so secure a right combination, was the trust device, which gave to the term "trust" a new meaning now embodied in familiar usage. Large-scale operations being commonly conducted under corporate organization, it was arranged that the holders of stock in the several companies to be combined should all transfer their shares to a few selected persons as trustees; these trustees then holding the shares, and having the rights of vote and control which belong to titular shareholders, but being under obligation to manage the property for the benefit of their *cestuis* (to use the legal phrase) and to turn over to these all dividends and profits. Thus the scattered owners and their enterprises would be tied irrevocably to the combination, and the trustees, as nominal stockholders, would control everything in their own hands; while at the same time the summary control over trustees by courts of equity would prevent over-reaching of the owners by these trustees. It was an ingenious device, but, as it proved, one to which the courts refused to give the expected legal solidity. In a test case it was held further that a corporation which practically divested itself in such fashion of its independence was subject to dissolution. This particular method of securing tight combination was accordingly given up in the industries

in which it was tried. The only permanent outcome was that the word "trust" came to be attached in popular parlance to any and every sort of combination, and, indeed, to any and every sort of large-scale operation.<sup>2</sup>

The holding company formed the next stage, and indeed is still the prevalent stage in the United States. A corporation is formed which acquires the stocks of the several combining concerns,—either all of the shares, or enough to give control. Its directors thus become the effective managers, just as the trustees under the trust scheme were designed to be. The original corporations retain their existence, and nominally continue to do business as before; but all control is united in one board. This device, nowadays so familiar, has the advantage, for the would-be monopolists, of achieving the result and at the same time concealing it. It may easily be made to appear that no combination at all has been effected. It has other tactical advantages, too; there are wheels within wheels, holding corporations for the original holding corporation, and thus not only further concealment, but easy possibility of manipulation by a small knot of insiders. These same results are in the main disadvantageous from the public point of view; they bring obscurity, mendacity, stockjobbing, danger of corruption.

<sup>2</sup> This "trust" device was first used by the Standard Oil combination. The Sugar Refiners tried it later, and it was in their case that the courts refused to apply the law as had been calculated by the astute lawyers who had framed the scheme. These enterprises, and the others that tried it, have all turned to other forms of combination.



There is a strong disposition to put a check on the holding company device, which can easily be done by prohibiting a corporation from being a shareholder of another corporation.<sup>3</sup>

The last stage, and the one to which the others lead, is simply that of the great or giant corporation, into which all the former competing enterprises are formally and completely merged. The holding corporation tends to develop into this, its constituent (or subordinate) parts being deprived of their nominal independence, and the shareholders becoming direct shareholders in the single company. The indications now (1910) are that the attainment of this final stage of compact combination will be accelerated by the very endeavors of our law to suppress combination. Under the prohibitory statute of 1890 (the so-called Sherman Act), a holding company would seem to be unlawful, and subject to dissolution, on the simple ground that it obviously stifles competition between the subordinate corporations held together by it. Whether the completely unified corporation, made up *de novo* from the others that completely disappear as corporations, stifles competition, and hence becomes sub-

<sup>3</sup> This power — to hold the stock of another corporation — never belongs to a corporation under English and American law, unless given in express terms by the grant of its charter from the sovereign power. In the absence of express grant, such holding is *ultra vires*. Our American states have been so complaisantly liberal in their laws as to incorporation, and have so frequently given the power, that most people are unaware of its being dependent on specific authorization, and do not know how easy it is — given only the will — to check this form of combination.

ject to the prohibitions of the statute, is a question much less easy to decide; since it involves inquiry as to the relations between the consolidated company and its "outside" rivals. As will appear in the course of this chapter, it is often difficult to make out whether such a company attains a monopoly, even whether it strives to attain one; still more difficult to decide what is wise policy in dealing with such a real or would-be monopoly. Yet these problems will have to be faced before long both by the judges and by the legislators; for the holding company is likely to be succeeded by the form, less vulnerable before the law as it now stands, of complete consolidation.



# XIV

## BIG BUSINESS AND THE CITIZEN <sup>1</sup>

BY HOLLAND THOMPSON

The trust problem looks so hopeless to the average man because the talk about it is so abstract.

No essay on competition can excite the same interest as a talk with a competitor. No discussion of monopoly is half so absorbing as an interview with a monopolist. In our desire to be profound we have succeeded in being either confused or silly.

Why must calm discussion of monopoly, the most human of forces, expressing as it does one of the fundamental facts of our natures, be dehumanized? For that matter "Trusts," that is to say, the driving power behind the combinations of capital, are not forces. They are folks first and forces afterward. Will it not throw light upon the whole matter to discuss these folks in their relation to the other individuals concerned? May we not simplify the subject, immense as it is and complicated as it seems, by

<sup>1</sup> Robert Lanier had been working on this chapter for several months, and had accumulated a great quantity of material, which he had begun to arrange when he died.

elimination? May we not get rid of familiar factors, find what is new, and examine that?

This article is the beginning of such an attempt. It deals with the Individual Citizen in his relation to the managers of "big business." Succeeding articles will take up the Borrower, the Laboring Man, the Investor, the Middleman and the Captain of Industry. The purpose is to limit the field, to ascertain the facts, to discover a tendency, not to denounce a conspiracy. It is assumed that under the same circumstances individuals behave in much the same way.

The successful promotion of one monopoly — perhaps the most important to America,— hung upon a woman's change of mind.

The lady's name is withheld for the present, for reasons which will appear later. It is enough to say that she was rich, and influential, through family and social position. She had undisputed control of her fortune, and naturally her secretaries were swamped with schemes suggested for the investment of her funds.

One promoter presented a plan to secure a monopoly of a profitable field, which had long been divided between two trusts. These made up in forcefulness of action what they lacked in organization, and had been able to eliminate the independent trader and now the stronger seemed to be on the point of crushing the weaker.

The business problem hinged upon transportation. The

company in control of freight rates was bound to win. As it happened, in spite of their monopoly, the two trusts in command of the field were doing business at a constantly increasing cost, and both had suffered some serious losses. The cost to the consumer was growing heavier, but so great was the demand for the goods, largely because they ministered to vanity, that a wide market was assured at any price.

The ingenious promoter, who had neglected his own profession for years while unsuccessfully seeking to interest capital in his plan, had worked out a scheme which would cut costs of transportation to the bone, and therefore the new company would be able to undersell the others to such an extent that an absolute monopoly would probably result. The original producers and the consuming public would both be forced to accept the trust's own terms.

The plan was simple — on paper — too simple, the lady's advisers thought; but the promoter was persistent and some of them were won over. The question of terms came up. The promoter demanded the sole management, his compensation to be one-tenth of the net profits, and also the right to subscribe for one-eighth of all issues of stock. From this he would not budge. Negotiations fell through, and the disappointed promoter left to seek other backers.

Here the woman's whim entered. A speculating capitalist of Hebrew descent, with the gift of financial prophecy so strong in his race, painted for her a vivid picture of the



possible profits, as well as other advantages — if the scheme did work. The lady changed her mind, recalled the promoter, and the trust was launched.

Though not everything expected was gained, success followed, but trouble also arose. The promoter was a man of broad views, a visionary even. One of his reasons for demanding such a large share of the profits was his desire to devote it to certain religious and philanthropic purposes. His subordinates, however, responded less to his influence than to the spirit of the promotion, which was simply a combination of money and genius to exploit producer and consumer alike. The producers suffered most. Their story is in fact a tragedy.

Like so many pioneers in other fields, the promoter did not realize the profits he had anticipated. Charged with the responsibility for internal dissensions, he was deposed, and for a time imprisoned. He died a disappointed man and his philanthropic purposes were never realized.

All of this sounds modern. You have read such stories in the magazines and newspapers, but this contract was dated April 17, 1492.

The lady was Queen Isabella of Castile; the "field," the East India trade (see map); the capitalist, Luis of the Santangel family, the Rothschilds of the fifteenth century.

The two trusts which had controlled the field were the trading cities of Venice and Genoa, which were the ter-

minals of the combined land and sea routes to the Indies.

The promoter was Christopher Columbus;<sup>2</sup> his religious purpose, the expulsion of the Turks.

The busy Citizen has somehow come to believe that the trust or monopoly is a modern invention. He thinks that it is a peculiar development of the last twenty or thirty years in the United States, though he has a vague idea that something of the sort has developed in Europe. Why else did a score of intelligent citizens to whom this story was told fail to identify it, though all of them had read history? Tell the story to your friends, and see if they can guess the answer.

Every step is typical of modern trust-hatching in the twentieth century. Ideas and capital meet, and struggle for the advantage. An agreement is reached and they combine against the public which has not been consulted at all. This story of Columbus suggests that some features of trust practice are at least four hundred years old. Other instances will be given later.

Any mixed group of citizens, in the village store, in the smoking car, at the club, or the golf links, will agree that the trust is something new, but they will disagree on every other aspect of the problem. Some feel that they are a

<sup>2</sup> Popular histories fail to emphasize the business side of the discovery of America. These statements above can be verified by reference to Las Casas, Harriette, Winsor, Fiske, etc. Prescott gives a vivid account of the cruelties toward the natives. The interpretation only is new.

natural evolution, necessary and laudable; some, though resentful, are resigned; others would restrain, control, dissolve or even destroy these Frankenstein's monsters of the twentieth century, but all make the same assumption of novelty.

We are told that there is in existence a "secret conspiracy" involving a concentration in a few hands of all the country's industries and even of all the very life blood of industry — banking. The charge has interested the House of Representatives and the Committee on Banking and Currency has been instructed to investigate the "Money Trust" — a power so well concealed that neither its officers nor its address is known to the public.

All speak glibly of trusts, and yet, strange to say, few persons can agree on a definition of a trust, nor can they draw the dividing line between legitimate business and unlawful practices. Of course, there are extremes, manifestly lawful, or the contrary, but all agree that between lies a "twilight zone," — to adapt William J. Bryan's phrase to other conditions, — which is dim and mysterious.

In the attempts to enforce the Sherman law, more than one hundred actions have been brought. Many of them have reached the Supreme Court and decisions have been handed down. In its decisions in the Standard Oil and the American Tobacco cases that tribunal has, so we are told, modified its earlier position by the insertion of the word "reasonable" into the statute, and with what result?

Chairman E. H. Gary of the United States Steel Corporation, who believes firmly in the economic and moral justification of combinations of competing units, and who certainly cannot be said to be lacking astute counselors in matters legal, said some time ago:

I know it is very easy to say the law is simple and clear and the corporation now knows exactly what to do, but I do not agree with the statement. I know that it is not the fact. I know that we have been in a position of great uncertainty during the last few years, and particularly during the last few months. We have been very much troubled to know just exactly what our position ought to be, what our conduct ought to be, and as a result there has been created in this country a feeling of great uncertainty and doubt. . . . These men would like to know what they can do; what they have the right to do; what they have the right to do from the standpoint of observance of the laws, and from the standpoint of public sentiment, which is just as important to consider; and they would not only like to know that for their present action, but they would like to know it for their future action.

There is not a more determined opponent of monopoly and monopolistic practices in the country than Senator Cummins. An able lawyer and a persevering student of economic questions, he approved the following statement: ". . . these decisions have rendered the law so uncertain and vague in its application to the actual affairs of business that men cannot safely proceed with the affairs they have in hand — safely proceed in the sense that they do not know

whether they are about to do a lawful thing or an unlawful thing."

The Senate Committee on Interstate Commerce has been holding sessions for months. Before it have appeared merchants, wholesale and retail, manufacturers, bankers, lawyers, professors of economics, officers of labor unions, farmers, railroad men, and simple citizens. In other words, producers, distributors and consumers. All of these have been allowed to express their views unhindered, and then have been questioned by the able members of the Committee representing every phase of political thought current to-day.

Into the record have been inserted decisions of the ablest judges in the history of the common law, thoughtful studies of present-day conditions, plans for paternalistic regulation of capitalization, prices and profits, well-considered plans for correcting admitted abuses, vigorous suggestions of confiscation of "ill-gotten gains" and violent demands for the punishment of "malefactors of great wealth." Representatives of every school of thought have had full opportunity to express themselves at length, thanks to the patience and forbearance of the committee.

The two fat volumes of testimony already published make interesting reading. Every citizen who takes his political responsibilities seriously will be fascinated by their pages but will lay them down with disappointment. The ablest students, the cleverest thinkers cannot come to any common

conclusion. They agree that trusts exist, but they cannot say what makes a trust; they agree that there are, and have been, evils, but they cannot come together on methods of correction, and in fact, in that "twilight zone" of which we spoke above, they cannot decide whether or not a particular course is evil.

To some the efficiency and the economy possible to large aggregations of capital seem so important that they are willing to overlook probable, even inevitable wrongs. To others the interest of the petty competitor, with his little shop (though his establishment may be economically inefficient) is so important that they are willing to forego the undoubted advantages of production on a large scale, and would try to maintain the weakling by the strong arm of the law. Some would recognize existing and future combinations but would regulate them, even though such action might mean in the end fixing prices by governmental action, not only of the finished product, but of the raw material, and of labor itself,—in other words, a return to the regulated monopoly of the Middle Ages.

If the doctors disagree what hope have the "common people" of coming to a clear decision? Their food for thought comes chiefly from the popular orators of the day who represent, generally, only one phase of the whole problem. They dwell upon the wrongs and compare the admitted evils of "big business" with those of monarchy or



of slavery. They preach revolution or revolt, and some of them would have us recognize in them twentieth century Washingtons or John Browns with divine commissions to set us free.

. . . . .

*Why not compare monopoly with itself? Why not study the trusts of to-day in the light of the trusts of yesterday?*

Step by step the problem will grow simpler. One by one those features of trust practice which we have thought so new will be seen to be old, and they will grow less important as we see how our fathers met and dealt with them. A series of interesting parallels will result. We shall find that competition was the uncommon, and monopoly the usual condition of business in the past.

Trusts will be found from Hudson Bay to the Bay of Bengal, from the Baltic to the Gulf of Mexico. One trust ruled India and controlled the destinies of millions of people; another made the Baltic an inland sea, making treaties and dethroning monarchs as need arose. Another financed the crusaders who captured Constantinople and set up a Latin kingdom there; another, the London branch of the Virginia Company, first planted permanent English settlements in the new world. These were international monopolies. Of the lesser national or sectional monopolies there were many. Every gild organized in the Middle Ages included some features which we would call monopolistic,

while kings bestowed upon individuals the sole right to sell various luxuries or necessities, which right was sold or leased to the merchant or the producer.

The story of Joseph in Egypt is one of the prettiest examples of cornering the food supply and exacting a monopoly price therefor of which we have record. We are told in Genesis that the Egyptians gave in exchange for bread their money, their cattle, and finally, their liberty and their land, which they afterward worked as tenants or serfs of their royal master. Aristotle tells us that an Athenian citizen once cornered the iron market in Syracuse.

Solomon as a monopolist surpasses any of our modern trust magnates. We know that he levied heavier toll on the caravans passing over his roads than the most grasping transportation manager of the nineteenth century ever dared to do. We are told in the Book of Kings that he brought linen yarn out of Egypt, which his men of business sold at a fixed price. He imported war horses from the same country and sold them at a high price to the princes and warriors of the whole region. He sent out trading ships which brought back immense quantities of gold, so that "Solomon exceeded all the kings of the earth for riches."

In every case the aim was the same: to get the business, to monopolize it, and the consuming public paid. Practically every feature of modern monopoly to which objection is made is another version of an old story told long ago. The methods in the past were much the same as those pur-

sued to-day, except that they were more vigorous. The little finger of the ancient monopolist was thicker than the loins of his degenerate successor.

Let us go over these characteristics one by one to see if we can find the new sin.

*Is there anything new about the bigness of business as such — the power of enterprise privately controlled?*

The company which finally got the monopoly which Columbus sought became the most powerful trust in the world's history.

This company, "The Governor and Company of Merchants Trading in the East Indies," received its charter from Queen Elizabeth on the last day of December, 1600, and was not finally dissolved until 1874. This charter besides granting the exclusive right to trade in all regions beyond the Cape of Good Hope, "not already possessed by some Christian prince," gave the right to "acquire territory, coin money, command fortresses and troops, form alliances, make war and peace, and exercise both civil and criminal jurisdiction." Truly this was a broad grant. Standard Oil and Steel must "hide their diminished heads."

In addition it was exempted from export duties for four years, and, if necessary, the payment of import duties might be delayed until after the goods were sold. The only restriction was that the consent of the crown must be given to every voyage. The reason for this limitation was probably to preserve the right to call for ships if another Span-

ish Armada should approach the coasts. The royal navy was then insignificant.

In organization, the company was really a syndicate with a concession for the Indian trade, and from the members special joint stock companies were organized for every voyage. Later the syndicate became a joint stock company with a capital stock which traded on the account of all.

The explanation given for seeking the charter was simple. The price of pepper had been raised from three shillings to eight shillings the pound by the Dutch traders who had broken by force of arms the previously existing Portuguese monopoly which had followed Vasco da Gama's discovery of the sea route to India. This Portuguese monopoly had been conducted at royal risk and profit, because the Portuguese merchants refused to take the risks. "Golden Goa," the story of which reads like a misplaced page from the Arabian Nights, had at first afforded enormous profits, which, however, were largely absorbed by dishonest officials.

Ostensibly for the purpose of cheapening the price of spices — does not this sound modern? — the charter was asked. It was granted and so this old leviathan of trusts was born. The profits of the first voyage averaged more than one hundred per cent., the fourth and fifth taken together, 234 per cent. Other voyages were not so successful, but the profits were large enough to invite competition, both of "interlopers" and of companies organized for the purpose. The interlopers were dealt with in a summary manner.

Both ships and cargoes were confiscated. The competing companies were absorbed, in one case after a struggle which convulsed British politics.

In 1682 a dividend in cash of 50 per cent. was paid, and at the same time a stock dividend of 100 per cent. was declared. The next year, after the inflation, a £100 share sold for £500, apparently the highest price on record, though this price was approached in 1720. Between 1657 and 1691 the average rate of dividends was 25 per cent. So great a proportion of the capital of the country was engaged in the Indian trade that in 1684 the company was accused of "alone devouring half the trade of the nation." Can even the "Money Trust" be charged with such power to-day?

At first the only territory controlled was the concessions for trading purposes for which rent was paid to the native princes, but in 1689 it was decided to enter upon a course of territorial aggrandizement. Most of us have been accustomed to think of those great pro-consuls, Robert Clive and Warren Hastings, as engaged in building up the British Empire. This is true only ultimately, for they were employes of the East India Company, and while they were setting up or pulling down nabobs, confiscating treasure, or fighting battles, they were primarily extending the power and the dominion of the company. To be sure the British Government, in 1773, and again in 1784, asserted its power

to regulate and control, but the company nominated the officials until 1858.

In 1813 the monopoly of the Indian trade was abolished, though the monopoly of the trade with China was continued. In 1833 even this was taken away, though the company still governed the country until 1858, when, as a result of the Sepoy mutiny, the British Government assumed full control. The government, however, guaranteed the dividends on the stock, and not until 1874 was it all retired at 100 per cent. premium.

Here then is, in brief outline, the story of a monopoly which from the India House in Leadenhall Street governed millions of Asiatics and waged bloody wars, not only with the natives, but with the French and the Dutch. It bribed officials of the government, had dozens of self-confessed representatives in Parliament and spent thousands of pounds in subsidizing the press. In fact, the responsibility for the widespread corruption in English politics in the eighteenth century is laid at its door. Its history for the first hundred years is set down in Sir William Wilson Hunter's "History of British India," a work unfortunately unfinished, but the fragment is a book which no student of economic or political problems can afford to neglect.

The American citizen has to contend with no such organization as this, and yet when it had done its work, its power, on the demand of the British Government, dropped from



it as a cloak. The King of England is Emperor of India, but the East India Company no longer exists.

For protection against pirates in the Baltic, and for the common welfare, the traders in a number of German cities very early formed loose associations. Out of them appeared, already full grown, early in the fourteenth century, the Hanseatic League. At the height of its power, it "had three good crowns at its disposal"; it set up a rival and successful king in Sweden; it twice captured Copenhagen and drove Waldemar III., of Denmark, from his kingdom in 1368. Later, in 1523, it was instrumental in dethroning Christian II., it enabled Gustavus Vasa to become ruler of Sweden, and once its armies ravaged the English coast. The Baltic became a Hanseatic lake into which no other flag might enter without the permission of the Hansa, a permission rarely granted. Though never rebelling openly against the Emperor, the League treated his demands with cold courtesy, and went its own way.

First and last perhaps ninety cities belonged to the League, though the exact number is uncertain, as the membership varied at different times. Some of the cities were expelled for disobedience to the rules of the League, and others were unable to pay their assessments. Lübeck was always the leader, though Hamburg and Cologne were hardly less important. In the cities the trading classes were always dominant, and they grew in wealth and power.

At London, Novgorod, Bergen, and Wisby, the Han-

seatic community was a state within a state, in which the laws of England, Russia, Norway or Sweden did not run. At Novgorod, the cloth of England and France was exchanged for furs, metals, honey and wax, always to the profit of the Hanseatic trader. At Bergen they exchanged manufactures of various sorts for fish.

Nowhere was the power of the League greater than in London, where a district known as the Steelyard on the water's edge, just above London Bridge, was the home of the Hanseatics. They bought the wool, hides, grain, beer and cheese of the English, selling them in return flax, linen, hemp, fish, wax and wine, as well as Oriental products with which they had provided themselves at Bruges, or even at Novgorod, where their traders had met an occasional caravan which had made its way entirely across Asia.

The English people objected vigorously to the favors showered upon the Hanseatics by their rulers, at first to no purpose. They were useful to the kings and useful also to the community, for they brought to their warehouses those needed goods which the confusion of the times and the backwardness of English workmen rendered unattainable otherwise. Not until the English were able to do themselves what the Hansa was doing for them, could they drive it away.

Bruges first, and later Antwerp, were the great clearing houses. Here the League did not demand the special privileges it had extorted in the cities just mentioned, but its grasp

upon the entire commerce of Northern Europe was not loosened until internal dissensions and a growing lack of enterprise weakened the union. With the increasing growth of national feeling in the states with which they dealt, their power to monopolize grew less. Under Elizabeth they were expelled from London in 1598. The pupils had learned how to trade from their German teachers; and then they dismissed the teachers. The 'Thirty Years' War completed the destruction.

The League had done its work. It had carried certain aspects of civilization to millions of barbarians. Through it the Baltic lands had advanced in wealth and intelligence. The merchant in the city had increased in self-respect and the power of the robber baron had been held in check. Our judgment on the results of its work will be much the same as on our present-day monopolies. It was done selfishly, and often roughly, but much of it was really constructive.

From the description of these two monopolies, the Individual will see that the mere size of a combination is nothing new. There are others, such as the Italian City Republics, which might be named, but the two instances given above are enough to show that there existed in the past proportionately greater combinations of capital, with greater powers, exercised in a more ruthless way, than can be found to-day.

No charge against the trust of the present day is made

with more indignation than this, and yet attention has been called to the political activities of the East India Company. In the Hanseatic League the governing power in every town was almost invariably the merchants and every regulation was made with their advantage in view.

Another instance no less striking is the connection of Venice with the Fourth Crusade. The Venetians had agreed to transport the Crusaders to the Holy Land for 85,000 marks, but the soldiers arrived with only 51,000 marks, all that could be raised. The Doge informed them that the remaining 34,000 marks would be excused if they would take Zara for the Venetians. This done, the Crusaders were induced to capture Constantinople where they established in 1204 a Latin kingdom. The Venetians secured a monopoly of the Eastern trade coming by the Black Sea route (see map) which they held until the Latin kingdom fell in 1261.

No campaign contribution of the present day compares with the million pounds which the East India Company furnished the government at low interest, in 1742, in return for a fourteen-year extension of its charter. Imagine, if you can, the Standard Oil Company, to prevent its dissolution, furnishing perhaps fifteen million dollars to the administration to finish the Panama Canal.

Go back four centuries farther. It seems incredible, but it is true, nevertheless, that Crécy and Poitiers were won with trust money. Edward III, a chronic borrower, had

financed his earlier campaigns in the Hundred Years' War by borrowing from the Florentine bankers. His default ruined them, and no one else would extend credit. The Hanseatic League came to the rescue, loaned the needy king £30,000, worth probably more than two and a quarter million dollars to-day, and received many favors in return.

Evidently monopoly and government have been closely allied in the past.

Read the early history of Spanish America and find the answer. If another instance is needed, study the attitude of the Hanseatic League toward its Russian or Norwegian producers, or go to the history of all the East India Companies, Portuguese, English, Dutch or French, especially the Dutch.

Again go to the East India Companies. Confiscation of ship and cargo was the slightest penalty inflicted upon the intruders. Reduction to slavery was common, and torture and murder were not infrequent. Turn to the Hansa again and find a similar course of action. The competitors of a modern trust at least escape with their lives.

Coming down to later times, the story of the Hudson's Bay Company, that great fur-trading company, chartered in 1670, is interesting. The free-trader, caught trespassing on the company's territories, and then set free in the wilderness without food, boat, gun or compass, is an example of the lengths to which commercial rivalry led men even in the nineteenth century. The contest with the Northwest Fur

Company was marked by deeds of which savages would hardly be proud. "If forgotten graves could give up their secrets, they could tell many a tale of violence and of treachery."

Evidently courtesy to competitors was not universal in the days of old.

The Dutch knew two hundred years ago that often an inadequate supply would bring in larger returns than a superfluity, a lesson our Southern cotton farmers have had impressed upon them time after time, but which they obstinately or short-sightedly refuse to heed. So we find the Dutch traders uprooting the spice trees on the Molucca Islands, and even burning a large proportion of the product to keep it from the market. The diamond monopoly of London and South Africa has learned no new tricks. The old ones knew them all.

The spectacle of men, directors and officials of a corporation,—trustees for the stockholders, in fact—using their positions and the knowledge gained thereby for private gain has been often seen. The investigation of the American Tobacco Company showed to what extent this could be carried. Surely this is new. Again go back to the declining degenerate days of the Hansa, and case after case of similar conduct is revealed. Turn to the East India Companies. We are told that the royal monopolist's ship went back to Portugal half empty, but that those loaded by his officers in India returned full. The British company evidently did not



expect its servants to live upon their salaries in the early days. When it found, however, that dozens of them were able to retire with enormous fortunes after a few years of service, while the returns to the company grew slowly or did not grow at all, strenuous efforts to stop the leaks were made, for a long time with slight success.

This practice is evidently not new.

To be sure these monopolies were generally mercantile and not manufacturing — monopolies of sale and not monopolies of production. The reason is plain. Before the days of machinery there was no production on a large scale, but this fact does not affect the soundness of the argument. That some of these monopolies were granted by royal favor is likewise immaterial. *Everything which could be monopolized was monopolized at some time or other in the world's history.*

We find then that practically every feature of the problem of monopoly to-day has appeared before. There have been monopolies of enormous size, proportionately larger than anything we have to-day. Sinister alliance with, or influence upon, government officials was common. The monopolists wilfully limited the supply, behaved with brutality toward the producer of goods and toward would-be competitors, and officials took advantage of their trusteeship for private gain. These are the most common charges against modern trusts and their managers.

There is, however, in the practice of "big business" to-day, a new sin which is fundamental. True, it is not yet recognized as a sin, but it should be and must be declared a crime. The sin is not an inheritance from the monopolies of a remote past, but has grown out of that fierce individualism so characteristic of American life. It has been fostered and developed by that unrestricted, savagely competitive struggle for supremacy which has been such a striking feature of our industrial history.

This practice, which seemed natural and logical in a simpler social and industrial organization of society, has been permitted to continue, though its effects to-day are wholly bad when viewed in the large. What, then, is this policy which has become improper and even wicked with the industrial development of the United States?

Our country and our times are not those of our ancestors, and changed conditions have brought different standards in their train. To-day many acts, once grave crimes, are considered harmless or even praiseworthy. On the other hand, law and public opinion now condemn many practices formerly ignored. Secrecy, not so long ago, an inalienable right, has become the new sin in business. Why this is true, and what a recognition of this fact means to the Individual will be discussed in the second half of this article, to appear next month.

The familiar charges against Big Business to-day are

echoes from past centuries. The real sin, from the standpoint of the Citizen, is Secrecy from which the other evils spring. Why?

The first half of this paper showed that monopolies of larger proportional size, exercising more nearly complete control and using more vigorous methods than their modern successors, flourished at various periods in history. They were operated primarily for selfish purposes, but often the whole people shared their gains. When Society had done with them they ceased to exist, but many left a permanent contribution to the general welfare.

The medieval guilds encouraged commerce and gave stability to industry; the Hanseatic League broke up nests of pirates, served the public convenience and carried light into darkness; the East India Company created the British Empire and indirectly made the Suez Canal a reality, instead of a dream; the Hudson's Bay Company maintained a British foothold in Canada, explored the trackless reaches of the unknown land, and thereby hastened the settlement, though against its will; even Joseph's corner in grain furnished bread (though at an enormous price), when otherwise there would have been none.

So in its turn our modern Big Business has, through pure selfishness, brought certain real public advantages in its train. The small concern was often unable to make the best combinations of men and material, and waste, the deadly economic sin, resulted. Compare the speed, comfort

and certainty of railway travel to-day with what our fathers knew. Compare the prices of hundreds of articles with those our fathers paid, and we must acknowledge that the public has had a share in the economies of production on a large scale.

One great distinction between ancient and modern Big Business, as it has developed in the United States, is the difference in attitude toward the state. In former days the paramount authority of the ruler (himself often a monopolist) over trade and commerce was recognized. The king did not always maintain a consistent control, for his administrative system was not efficient, but *when he wanted information, he got it*. When he wished to restrain, regulate or crush a monopoly, whether induced by his own greed or impelled by the pressure of public opinion, he did it without hesitation.

Some modern managers of Big Business would deny the right of the state to question its organization or its methods. The People, who have succeeded to all the authority once claimed by the ruler, have neglected to assert all their rights, and some of our Captains of Industry have grown to believe that business is a law unto itself. The public interest has been ignored and depredations against competitor and consumer alike have been secretly planned. Such Secrecy is the sin of which we speak.

Such a spirit is characteristic of America and has grown out of the peculiar conditions of our national life. There

has been so much pioneer work to be done in the United States that the important question has been how much, not how well, or how justly, work has been done. Lavish energy has been devoted to subduing the wilderness, or has been poured into trade and commerce. Life in a new country developed independence of spirit, a certain fierce individualism, which ignored the common rights of all. Every man felt that he was the best, and in many cases the sole, judge of his own conduct.

This feeling that a man may do as he pleases with his own has persisted in business, though the spirit of the times is changing. Gradually we are realizing that no man has the right to be the sole judge of his conduct, that all the people must be considered before the interests of a few. We say that the Kentucky mountaineer, who demands that he be permitted to make his own rules of conduct, who claims the right to constitute himself judge, jury and executioner, is a survival from an earlier and ruder age. The bank president who boasts of his refusal to answer the questions of the House of Representatives is likewise a survival of another stage of civilization in the United States.

The marvelous improvements in means of transportation and communication are rapidly making the United States (and to a less degree the world) an industrial unit; somewhat more slowly a social unit. The country is no longer made up of separate divisions. A shock in one section is felt in all. Inefficiency, industrial or social, is paid for by

the whole country. We cannot afford the deadly sin of waste, for our wants are increasing faster than the means of gratifying them. Neither can we afford to have the occupants of a field expend their energy which should go into making their plants efficient, in the attempt to destroy one another, and then join forces to rob those outside.

The unrestricted, relentless competition of the nineteenth century wasted not only our natural resources, but also energy and capital. Since it was easier to waste than to save, the wealth which should have been preserved for future generations was squandered. This competition either left one organization triumphant among the slain, or else has resulted in agreements, divisions of the field, combinations or consolidations. The Citizen is told that large economies have been effected. To what extent is the Consumer sharing them? Is the Laborer getting his share? Has Society gained? Undoubtedly oil is cheaper than forty years ago, but is this because of Standard Oil or in spite of it? How can the Citizen know, for he must know in order to judge wisely, and govern his conduct accordingly?

It is too late for Big Business to bluster about "unwarranted interference with private business." Such business is not private business. *The creation by the state of limited liability corporations was the most extensive interference with private business in history.* The old monopoly was, generally speaking, built upon a royal grant of powers and privileges. Modern business is built upon the corporation



through which the capital of many separate individuals is subjected to unified control.

No invention, no discovery in the whole history of the world has so vitally influenced the whole field of business. This artificial person, combining, as it does, nearly all the advantages of private ownership without the disadvantages, and in addition many advantages given by the state, has become increasingly important with industrial growth, and has made possible the large scale business we have to-day. Few individuals have the capital necessary to finance any one of these large undertakings, and still fewer would be willing to invest such large sums in a business which might be thrown into confusion or even ruin, by death. The partnership allows somewhat larger establishments, but even here there are certain disadvantages compared with the newer forms of association. A statement of some elementary facts of contract law will make the matter clear.

Smith, Jones and Brown form a partnership. According to the common law none of these may be a married woman, nor under twenty-one years of age. Every one of them is responsible for the debts of the firm, even to the extent of his entire possessions, no matter if this debt is caused by the unauthorized action, or even the dishonesty of one of the partners, presumably acting for the firm. A suit against the partnership may tie up all the enterprises of every member. No fourth partner can be introduced without the consent of every one of the three. No one of them can make

any private profit out of any dealings with the firm. Though Smith may desire to withdraw or to sell his interest, he may still be held responsible for the debts of the firm made before he leaves it. If Brown dies, or Jones becomes bankrupt, the partnership affairs must be wound up.

Compare these restrictions with the freedom allowed when Smith, Jones and Brown form a corporation. Its life is perpetual or at least renewable. Every member then is liable only for the property he has invested. (The double liability of the stockholders of National Banks is a special case.) Jones may withdraw by selling or giving away his stock at any time, without the consent or even the knowledge of his fellows; he may own the whole or a part of a competing business, may sell goods to the corporation, or may buy from it. The insolvency or death of a shareholder has no effect upon the corporation, nor can an officer without authorization of the directors embark in a course which will involve all in ruin, a course which any partner may take. Has not the state here given great advantage to the corporation?

So then the corporation is the child of the state. From the state come its great advantages which have made possible the domination of certain fields. The state gave these powers *not for the benefit of the shareholders but for the public interest, to enable the corporation to do the work which an individual or a partnership could not do, or, at least, was unwilling to do.* Then when the state finds that these powers are used, not for the interest of its citizens but to oppress

them, who can say that the state may not interfere?

This is not only sound ethics, but it is good law. In the beginning of the history of the corporation, the judges were disposed to treat it precisely as an individual. We are told that in the early days of illuminating gas, it was held that the company was free to sell or to refuse its product to any individual. The absurdity of such a decision was apparent, and the courts soon declared that all applying must be supplied without discrimination. Now it is further settled that the state may prescribe a minimum quality and a maximum price, provided that this price will afford a reasonable return to capital.

As the public consciousness has become able to think in terms of corporations as well as in terms of individuals, the law has advanced still further. It is useless to deny that in their interpretation and application of the principles of the common law, judges are profoundly influenced by the social consciousness. *In the long run the law is what the people demand that it shall be*, and this is true regardless of any of the modern machinery which promises to turn instantaneously a passing whim into a statute.

A landmark in modern corporation law is the great case of *Munn v. Illinois*, popularly known as the "Elevator Case," decided by the Supreme Court of the United States in 1877. The question in dispute was the right of the state to regulate the rules and charges of grain elevators. Chief Justice Waite delivered the opinion of seven members of the

court and showed that from time immemorial the right of the state to regulate various activities of its citizens had been assumed, and went on to say that, "when private property is 'affected with a public interest it ceases to be *juris privati* only.' Property does become clothed with a public interest when used in a manner to make it of public consequence, and affect the community at large."

Upon this case as a pivot the "Granger Cases" which prepared the way for regulation of public service corporations turned.<sup>4</sup> Regulation of corporations serving the public was declared to be lawful in spite of the emphatic protest of Justice Field (approved by Justice Strong), who said: "There is no business or enterprise involving expenditure to any extent which is not of public consequence and which does not affect the community at large." In another place the same justice declared that the opinion of the seven justices was a "bold assertion of absolute power by the state to control at its discretion the property and business of the citizen and fix the compensation he shall receive." Nevertheless the decision stands.

Note the progress of the law as interpreted by the courts. First the corporation is treated precisely as an individual, and, with the conception of the power of the state which

<sup>4</sup> This name was applied to a group of cases coming from the Middle West decided by the Supreme Court 1876-77. Their purpose was to test the constitutionality of the restrictive legislation on common carriers placed in the statute books through the influence of the National Grange of Patrons of Husbandry, so powerful in that section a generation ago.

prevailed at the time, its right to arbitrary action is affirmed. Then the so-called public service corporation is separated from the corporation in general, discrimination on its part is forbidden, and next the right to regulate the prices of its product, whether goods or services, is asserted. Finally the idea of regulation is logically extended to all corporation of "public consequences," that is, having an element of monopoly.

*What in fact is the difference between gas and kerosene?* The state regulates the terms on which gas may be sold, because it is a public necessity supplied by a monopoly. Kerosene is likewise a necessity and in some sections of the country is supplied only by a monopoly. Again gas is used for heating and cooking. So is anthracite coal, and if it is subjected to unified control, why are not the cases similar?

The Citizen is not yet ready to go to such lengths. Perhaps he never will be. In the Middle Ages such regulation was not particularly difficult. To-day such action would be attended with infinitely more complications, though the increasing concentration of business would make such regulation easier now than forty years ago. Some students see no other way to curb the power of those great industrial combinations, which have gained substantial control of their fields, but the average Citizen is as yet too individualistic. Only as a last resort will he agree to such action, *but his right cannot be logically questioned.*

Big business is becoming the distinctive feature of Amer-

ican industrial life. The census shows that just over one-fourth of the manufacturing establishments of the United States are under corporate control, *but they do 79 per cent. of the business*. Only a little more than one per cent. of the establishments produce more than a million dollars worth of goods in a year, *but these establishments do nearly 44 per cent. of the business*. These 3,061 organizations (there were only 1,900 of them five years ago) are divided among all branches of industry. Not all of them are trusts. The highest estimate of such combinations is about 800, and this is much padded, but the figures shown do indicate that the large establishment is growing more important.

Have these leviathans succeeded on account of superior ability or exceptional skill in management, or because of advantageous location, and special advantages in transportation, natural or artificial? Has the success been due to the possession of basic patents, or to any one or more of these advantages combined with sheer brutality toward competitors, and contemptuous disregard of the producer of raw material and of the consumer alike?

No one knows. We do know the secret of a few. The Standard Oil colossus owed much to the freight rebates, not only on its own product, but also on that of its competitors, obligingly collected and paid over by the railroads. Practically all the older concerns have profited by rebates, for that matter. The ownership of popular brands, together with imagination and ruthless singleness of purpose, made



the American Tobacco Company the dictator of the nicotine world. The ownership of its raw materials, and, in a large measure, of its means of transportation has enabled the Steel Corporation to hold its own and pay dividends upon capitalized visions.

We can surmise the reasons for the success of others, sometimes creditable, sometimes not. We are told that some have grown great because they best serve the public, because they give as well as take. We have heard that others have set out to win a monopoly without scruple as to methods, but the Citizen does not know the truth.

Regardless of past history, what is the present attitude of these great aggregations of capital toward the public which has allowed them to grow strong enough to control prices, — for after all this is perhaps as good a definition of a trust as we have — an organization strong enough to affect prices at will. Are they pursuing the paths of fairness and justice, or do they seek to accomplish by indirection what they no longer dare to do openly? Are they obeying the law of the land? The Citizen does not know, and he has no means of knowing. Some of the managers say that they do not know either, and that they wish to be told.

The Citizen demands the answers to all these questions and more besides. When a new combination is organized he wishes to know how much of the capitalization represents physical value, how much is allowed for good-will and trade-marks, how much is water only, and how heavy are the pro-

motors' and underwriters' fees. He is also interested in the relationship of different corporations. Do they really work together while pretending to be opposed? The Citizen is always a consumer and he is sometimes an Investor also.

He knows that in this day he cannot be sure of a fair price unless he knows the costs. Therefore he wishes to know the cost of the raw material, and the transportation charges on it, how much is paid for wages, how much for interest and depreciation, and how much for expenses of management.

Then, too, he is inquisitive about the cost of selling the product. How much difference is there between the price at the shop and on the doorstep of the consumer? Was the man who dropped into the plate a cent for the heathen, but wrapped it in a dollar bill to pay the expense of getting it to them, thinking of modern middlemen? Further, are prices uniform in all sections regardless of a real or potential competitor?

This is one of the points on which the Citizen is particularly inquisitive. He has been told that the great organization which sells in every part of the country sometimes reduces prices unduly in the corner where a small competitor is located, while maintaining them in other sections. Usually the competitor must yield, for it must meet these prices,—often below cost, which the larger concern can offer because it is sustained by profits gained elsewhere. This competitor may be able to produce goods as cheaply

as the trust,— for in some lines, size beyond a certain point does not necessarily mean increased efficiency — but it cannot match the resources of the larger organization. If uniform prices were the rule, the competitor might be able to lose one dollar as long as its great rival could afford to lose ten.

Then, too, there are stories of the attitude of some great combinations toward labor, about which the Citizen is curious. He has heard that an organization operating perhaps a dozen plants sometimes closes one arbitrarily until the workers are brought to terms, regardless of the justice of their contention. Then this plant is reopened and the same process is repeated in another.

Combination is taking in new fields. Openly the cotton farmers have been urged to organize, to reduce the supply and hold even that reduced supply from the market until a monopoly price is offered, and some slight progress toward such an end has been made. In some sections the growers of fruits and berries have made agreements, or formed combinations, with the ostensible purpose of securing better packing and more intelligent marketing. There are stories of concerted action on the part of the producers of milk and butter.

Deep down in his mind the most individualistic citizen is beginning to doubt both the efficacy of competition in regulating prices, and even its desirability in many lines of industry. He sometimes asks himself *whether any law could*

*make him fight against his will, and if he would not fight himself, how can others be made to struggle?* But the Citizen has a very lively curiosity concerning all these agreements to restrain trade. He wishes to know their terms, and their effects.

These are some of the points upon which the great body of American citizens desire information, and without which there is little hope of unwinding the tangled skein of our industrial and economic life. In a word they wish to know the costs of both goods and services which they must buy, and next, how these costs are reached.

The Citizen will know. This does not mean either arbitrary interferences or confiscation, but social justice must be done. *If this end is to be reached by regulated competition, the Citizen must know; if by regulated monopoly, the state will survive.* But it is to be a deliberate choice and not a supine acceptance of unregulated monopoly.

A Commission on Interstate Trade is the answer.

Just what form this Commission shall take and what powers shall be granted it are questions upon which there is difference of opinion. *From the point of view of the framers of this series, the fundamental necessity is that it shall be an effective agency for Investigation and Publicity.* Beyond this they are, for the present, less concerned. Others have urged that powers of regulation be added, and many separate schemes have been suggested.

The different plans, though varying in details may be

reduced to three, which may be characterized as (1) the Investigation and Publicity plan; (2) the License plan; and (3) the Regulation plan. These differ chiefly in the amount of Federal control demanded.

The plan of Senator Francis G. Newlands, of Nevada, as set forth in his bill introduced into the United States Senate February 26, 1912, calls for a commission of three members, to be appointed by the President for a term of nine years, with terms so arranged that there shall be a vacancy every three years. The Bureau of Corporations is to be absorbed with its staff of investigators and accountants, and the present Commissioner of Corporations is to be a member of the Commission.

The powers given may be stated as those of Visitation, Examination, Investigation and Publication. All corporations engaged in interstate commerce having gross receipts of \$5,000,000 (except those already subject to the Interstate Commerce Commission and the Comptroller of the Currency, *i. e.*, public utilities and banking) are directly in charge of the new Commission. From these a report in a prescribed form giving a statement of organization, financial condition and operations will be required at once under oath. Thereafter such reports are to be regularly made. A report of similar nature is to be made by corporations beginning business.

The Commission, or its agents, will have the right to examine all books, records, and minutes, and the power to

subpœna witnesses, examine them under oath, and to compel the production of books and papers is also given. These powers are to be enforced by the *mandamus* of the United States District Court. The Commission shall make public so much of the information gained as shall seem proper, *striving always to distinguish between what is purely private and what is of public interest.*

The bill further provides that the Commission may require reports of the condition of any particular corporation regardless of size, and may publish the information gained. Likewise it may investigate, on its own initiative, or upon the complaint of any citizen or of the Attorney General, any corporation to determine whether it has been guilty of violating the Sherman Act. If improper practices are found, it may inform the officers and prescribe readjustments. If the practice or condition is not corrected within sixty days, a copy of the finding and the evidence is to be sent the Department of Justice.

Further it is provided that the Commission shall be charged with carrying out the decisions of the courts on the Sherman Act. It is certain that a commission with broader knowledge of economic questions than that possessed by the judges of the United States Courts in New York, for example, would have worked out a plan for the reorganization of the American Tobacco Company, which would have received, and deserved, less criticism than the solution finally announced.



The assumptions behind this bill are of course that the Sherman Act can be made effective, and that we are too ignorant of the facts to attempt more definite legislation at present. It leaves the question whether it is possible to retain competition in all lines to the future. It lays out a program, comprehensive so far as it goes, and undoubtedly effective to a degree, and leaves further action to the time, when the results of the Commission's activities will furnish more exact knowledge than is now available.

On the other hand the effect of this bill on the corporation, should it become a law, might be beneficial in many cases. The preparation of the figures required by the Commission would force the officers and directors to scrutinize with care their system of accounts. There is a strong suspicion that many of the plants of certain great combinations are neither well equipped nor efficient. It is also believed that several of the combinations cannot manufacture so cheaply as some of their independent rivals. The reports to the Commission would show the truth.

The different plans suggested for a Federal license add to the activities of the Commission (more or less the same as described above), the duty of licensing corporations engaged in interstate commerce. These plans differ chiefly on the question of making the application for license permissive or mandatory.

In one case the license is a reward of merit for the "good

trust." Those corporations above a certain size which can satisfy the Commission that they are organized in accordance with the law, that they do not prey upon producers of raw material, competitors or the public, are to have the privilege of adding "United States Registered" or similar words to their title. Upon proof of improper conduct the Commission is authorized to revoke the license.

The advocates of the plan claim that the possession of a Federal license would soon be highly prized and would in time be regarded as a necessity, since the public, feeling that the possession of a license gave some assurance of fair dealing, would give the preference to the registered corporation; that the obligations of this class would bring a higher price than those of the unregistered for the same reason that the bonds issued by various public service corporations which are approved by the Public Service Commissions of some of the states have a wider market and a readier sale.

The advocates of requiring a Federal license would bar from interstate commerce all corporations to which the Commission refused a license. Such a plan is not, in fact, essentially different from Federal incorporation, or from regulation, to which we now come.

The wisdom of preserving competition is not a debatable question to Senator Cummins. His mind is settled upon that point, and his plan is based upon the intention of preventing any corporation from obtaining control of any field.

His bill, introduced the same day as Senator Newlands', provides for a commission organized much as that advocated by the latter, but with greater powers.

While believing firmly in the Sherman Act he feels that it is not, as it stands, sufficiently definite, and that to wait until a consistent body of law is developed by the decisions of the Supreme Court would be fatal. Therefore the greater part of his bill is devoted to what may be described as an amplification of the Sherman Act.

The Commission is charged with the duty of preventing any corporation from employing sufficient capital to destroy effective competition. Every corporation engaged in interstate commerce with capital of \$5,000,000 or over is made subject to the control of the Commission. No man may be director in two corporations in the same line, nor are dummy directors permitted. The "holding company" is declared illegal and, in fact, no corporation may own stock in another corporation. No officer or director of a company with a capital stock of \$10,000,000 or more may be an officer or director of a bank.

Not only must there be no holding companies, but also the ownership of common carriers or any interest in the same is forbidden. Discrimination in prices is forbidden except for carload lots, or where charges are paid by the manufacturer, these may be added to the fixed price.

The chief question of the citizen about any of these plans is whether it will work. With the aim of Senator Cum-

mins' plan he is in sympathy, but he realizes that men are only human. This bill imposes upon a new commission more difficult tasks than have been given to the Interstate Commerce Commission after twenty-five years of experience, and calls for an exercise of discretion and judgment which would tax the ablest jurists and economists.

The License plan is chiefly advocated by those who are directly interested in "big business" and while the Citizen is not unduly suspicious, he is afraid that in the present state of our knowledge, the Federal seal of approval will come to mean little more than "U. S. Inspected and Passed" in the packing industry, and largely for the same reason — too much work for the inspectors. Discovering facts and approving practices are two entirely distinct things.

At the present time what the Citizen demands most insistently is knowledge. All that the muckrakers have said cannot be true, and yet he knows that all is not well. He believes that a Commission of Investigation and Publication will work, because he has before him the success of a commission which has proved its ability to use broader powers than he is disposed to grant to the new body.

Forty years ago the railroad question was the vital economic problem. Rebates to favored shippers were so common that a prominent railroad man said, "Only the unwary paid tariff rates." The shipper without influence often paid a freight rate, one-fourth or even one-half greater than that paid by his competitor. One town was favored at the ex-

pense of another, the railroad was in politics all the time, and "the public be damned" was the ruling policy. Twenty-five years ago the Interstate Commerce Commission was formed and, after a period of weakness, its powers have been increased until it is now a singularly strong and effective body. No one in his senses would claim for a moment that it has been entirely successful, but, on the other hand, no one except an antediluvian would deny that the Publicity it has caused has been beneficial to the railroad, the shipper and the public alike.

The Commission has not entirely stopped rebating, but rebating has become the exception and not the rule. Freight discriminations exist, but they are growing fewer. The Citizen who buys a ticket may help to pay for a certain amount of free transportation, but fewer politicians or "influential citizens" ride on passes. The Commission has not taken the railroads entirely out of politics, but their political power has been reduced, partly because of the work of the Commission, partly for other reasons.

The Commission has decided many cases (though often overruled by the courts), but the injustices it has prevented are many times as numerous as those it has corrected. A very large majority of the complaints have been redressed without formal action, and the very existence of a body to which appeal was possible has made the necessity for appeal less frequent. Publicity has been effective, for no railroad

manager any more than an individual wishes the reputation of being an extortioner.

There are, according to the estimate of the Commissioner of Corporation, somewhere between 325 and 500 corporations doing a business of more than \$5,000,000 a year. The task of supervising these would be less difficult than the task the Interstate Commerce Commission has performed. It is amusing and interesting to read now the prophecies of failure given elsewhere in this article, which were made only twenty-five years ago.

Publish it, is the answer. The ease and rapidity of communication and transportation have made possible the phenomenal growth of capital and also its concentration. It is proposed to use these same modern agencies to restrain the modern Midas, when he forgets that he has grown wealthy and powerful only through the permission of Society.

Light is one of the strongest preventives of crime. Increasing the illumination will do more to reform a street than doubling the force of policemen. A light hung in front of a safe is better protection than a watchman, for all the passers-by are transformed into watchmen. So it is the obscurity with which the transactions of our great corporations are covered that allows those acts of which the Citizen justly complains.

Aroused and informed Public Opinion is a force which is almost irresistible. As a witness before the Senate Com-



mittee aptly said, "No one except a fool disregards public opinion." It forced Elizabeth to revoke the charters of many monopolies she had granted, it brought on the Civil War, it forced the United States into the war with Spain, it forced the settlement of the recent textile strike in New England.

There are hundreds, even thousands, of such cases in history. Where the great mass of the people has had no direct voice in the government, wise rulers have always made concessions to public feeling. The influence of this force is shown in our everyday life. Many men lead decent lives from no higher motives than the desire for the approbation of their fellows. Other thousands abstain from open evil from fear of public censure alone. This has always been true of individuals and now the corporation has fallen into line. It also seeks to gain approbation and to avoid blame, and is showing a new deference to the opinion of its patrons.

Instances could be multiplied from the daily papers. A few years ago the Long Island Railroad wished to raise its rates. It bought columns of the newspapers to explain the financial reasons which made such action necessary. The same course was taken by the management of the Hudson River tubes, when the fare from New Jersey to New York was increased a few months ago. Twenty years ago similar corporations would never have dreamed of paying for advertising space to placate the public. Now nearly every great corporation has a publicity agent to spread all that is

favorable, and to offer a plausible explanation of occurrences which might cause unfavorable comment.

So the simple publication of acts of injustice and unfairness would in many cases work their cure, just as the investigations of the Bureau of Corporations have changed the rules of the Cotton Exchanges. Herbert Knox Smith, the Commissioner of Corporations, says:

The report of the bureau in the transportation of petroleum published in May, 1906, effected a sweeping decrease in the granting of railway rebates throughout the country. Practically every railroad involved . . . canceled the objectionable rates within six months after the issuance of the report.

Again there is another advantage. Fifty years ago the hero of the Sunday-school book became a successful merchant or manufacturer. Now suspicion is attached to wealth and all the rich are classed as predatory. Too often the question is, "Where did he get it?" or "What does he want?" All men of wealth have suffered for the deeds of a few. Those coming through the fires of investigation unscathed would find the attitude of the public different, and the Citizen would lose his suspicious attitude which is harming him no less than its object.

No one class will profit more by Publicity than the small stockholders in the large corporation. Too often the dominant interests have treated them as of no account, have concealed earnings, withheld dividends, or declared them

when not earned, solely that they might juggle with the stock market. We saw the price of Standard Oil rising after dissolution had been decreed, because those on the inside withheld information until their hands were forced. The stockholders knew nothing of the affairs of the corporation except that it paid good dividends. It could have paid a higher rate. Again Publicity would bring to light the concealed corporations, largely composed of insiders, which often take the lion's share of the profits which should belong to the stockholders of the larger organization. Insiders could no longer form "construction companies" to which contracts would be let at exorbitant prices. The sling of David was an object of derision, but it prevailed against Goliath.

As we have said above, the Citizen has begun to doubt the possibility of maintaining competition in all lines of business. He is forced to believe that the badly located plant with insufficient capital cannot produce cheaply, and increasing cheapness of production is necessary for economic progress, for waste is a sin. He is told that a drug store with too little capital, and lacking efficient management cannot properly serve the public. Yet the Citizen must be certain that these are really inefficient, for he is sorry to see his neighbors fail.

But if under a régime of Publicity, the larger and better equipped plant, or the intelligently managed chain-store, can fairly and honestly offer cheaper goods, or afford better

service, the Citizen is not a Mrs. Partington, who will try to sweep back the waves of the sea. The relatively inefficient must go, in the long run, just as the hand-loom weaver disappeared before the factory, and, in our own day, we are seeing the hand compositor give place to the linotype operator.

The Citizen *knows* that savage, intolerant competition destroys the weaker and leads toward monopoly. He *hopes* to see the present uncertainty replaced by an era of "tolerant competition," when efficient plants will strive to secure the business by producing better and cheaper goods, or by offering better service. In other words, he hopes to preserve all the economies of large-scale production without the dangers of monopoly.

Finally, under the reign of Publicity the real culprits will stand revealed. Those who deliberately and defiantly deny their obligation to Society and avow their motto to be "Let him get who hath the power" will no longer be protected. For them is the scourge of the law.

Let us now trace again the path by which we have come. Monopoly is as old as history and practices of the modern monopolist were common to his predecessor. The old monopolist, however, seldom denied his responsibility to his creator. The modern monopolist has grown great, largely because of the privileges granted by the state. The state, then, can regulate the business as soon as it becomes of

"public consequence." But in order to frame proper legislation, we must have all the facts of organization and conduct. The agency which will get these facts is a permanent commission organized for the purpose. When the monopolists find that their actions will be brought to the light, many improper practices will disappear. If they do not, we shall know how to deal with them.

### A CHAPTER OF ANCIENT HISTORY

These extracts below on the question of establishing the Interstate Commerce Commission are only a little more than twenty-five years old, but they sound as if they belonged to another age. They show better than pages of explanation could do some of the common ideas a quarter of a century ago,—the arrogant individualism, the absolute lack of any conception of the rights of the public. On the other hand there is the demagogic appeal to the prejudices of the people.

They are taken, either from the report of the Cullom Committee of the United States Senate, 1885–86, or from the *Congressional Record*.

John Norris, editor *Philadelphia Record*:

A commission would be dangerous. In the first place it would bring the railroad interests into politics. . . . It would give an almost autocratic power to some few men.

Charles E. Perkins, president of the Chicago, Burlington & Quincy R. R.:

To require absolute publicity of rates and that changes should not be made without public notice would be a great inconvenience to the business community. . . . It is of the utmost importance to the public that the parties interested, the railroads and the shippers, should be free to make and take advantage of varying rates when circumstances make variations necessary.

I am unable to perceive any reason why railroads should be required to make annual reports to the government, any more than any and all corporations.

Senator Stanford:

Therefore if legislation interferes to decrease income, surely the value of the property is affected to the extent of the diminution of the income. This is taking property without compensation. It is confiscation.

Senator Sherman:

I believe that it will be repealed within a short time.

Senator Riddleberger:

. . . this bill as it stands legalizes discrimination against nine-tenths of the people of this country. I believe it is just such a bill as the railroads want.





## XV

# THE REMEDY OF WRONGS <sup>1</sup>

THEODORE ROOSEVELT

The Congress has the power to charter corporations to engage in interstate and foreign commerce, and a general law can be enacted under the provisions of which existing corporations could take out Federal charters and new Federal corporations could be created. An essential provision of such a law should be a method of predetermining by some Federal board or commission whether the applicant for a Federal charter was an association or combination within the restrictions of the Federal law. Provision should also be made for complete publicity in all matters affecting the public and complete protection to the investing public and the shareholders in the matter of issuing corporate securities. If an incorporation law is not deemed advisable, a license act for big interstate corporations might be enacted; or a combination of the two might be tried. The supervision established might be analogous to that now exercised over national banks. At least, the antitrust act should be supplemented by specific prohibitions of the methods which ex-

<sup>1</sup> From various messages to Congress.

perience has shown have been of most service in enabling monopolistic combinations to crush out competition. The real owners of a corporation should be compelled to do business in their own name. The right to hold stock in other corporations should hereafter be denied to interstate corporations, unless on approval by the proper Government officials, and a prerequisite to such approval should be the listing with the Government of all owners and stockholders, both by the corporation owning such stock and by the corporation in which such stock is owned.

Moreover, in my judgment there should be additional legislation looking to the proper control of the great business concerns engaged in interstate business, this control to be exercised for their own benefit and prosperity no less than for the protection of investors and of the general public. As I have repeatedly said in messages to the Congress and elsewhere, experience has definitely shown not merely the unwisdom but the futility of endeavoring to put a stop to all business combinations. Modern industrial conditions are such that combination is not only necessary but inevitable. It is so in the world of business just as it is so in the world of labor, and it is as idle to desire to put an end to all corporations, to all big combinations of capital, as to desire to put an end to combinations of labor. Corporation and labor union alike have come to stay. Each if properly managed is a source of good and not evil. Whenever in either there is evil, it should be promptly held to account;

but it should receive hearty encouragement so long as it is properly managed. It is profoundly immoral to put or keep on the statute books a law, nominally in the interest of public morality, that really puts a premium upon public immorality by undertaking to forbid honest men from doing what must be done under modern business conditions, so that the law itself provides that its own infraction must be the condition precedent upon business success. To aim at the accomplishment of too much usually means the accomplishment of too little, and often the doing of positive damage. In my message to the Congress a year ago, in speaking of the antitrust laws, I said:

“The actual working of our laws has shown that the effort to prohibit all combination, good or bad, is noxious where it is not ineffective. Combination of capital, like combination of labor, is a necessary element in our present industrial system. It is not possible completely to prevent it; and if it were possible, such complete prevention would do damage to the body politic. What we need is not vainly to try to prevent all combination, but to secure such rigorous and adequate control and supervision of the combinations as to prevent their injuring the public, or existing in such forms as inevitably to threaten injury. . . . It is unfortunate that our present laws should forbid all combinations instead of sharply discriminating between those combinations which do good and those combinations which do evil.”

“If the folly of man mars the general well-being, then

those who are innocent of the folly will have to pay part of the penalty incurred by those who are guilty of the folly. A panic brought on by the speculative folly of part of the business community would hurt the whole business community; but such stoppage of welfare, though it might be severe, would not be lasting. In the long run, the one vital factor in the permanent prosperity of the country is the high individual character of the average American worker, the average American citizen, no matter whether his work be mental or manual, whether he be farmer or wage-worker, business man or professional man.

“In our industrial and social system the interests of all men are so closely intertwined that in the immense majority of cases a straight-dealing man, who by his efficiency, by his ingenuity and industry, benefits himself, must also benefit others. Normally, the man of great productive capacity who becomes rich by guiding the labor of many other men does so by enabling them to produce more than they could produce without his guidance; and both he and they share in the benefit which comes also to the public at large. The superficial fact that the sharing may be unequal must never blind us to the underlying fact that there is this sharing, and that the benefit comes in some degree to each man concerned. Normally, the wage-worker, the man of small means, and the average consumer, as well as the average producer, are all alike helped by making conditions such that the man of exceptional business ability receives an exceptional reward for

his ability. Something can be done by legislation to help the general prosperity; but no such help of a permanently beneficial character can be given to the less able and less fortunate save as the results of a policy which shall inure to the advantage of all industries and efficient people who act decently; and this is only another way of saying that any benefit which comes to the less able and less fortunate must of necessity come even more to the more able and more fortunate. If, therefore, the less fortunate man is moved by envy of his more fortunate brother to strike at the conditions under which they have both, though unequally, prospered, the result will assuredly be that while damage may come to the one struck at, it will visit with an even heavier load the one who strikes the blow. Taken as a whole, we must all go up or go down together.

“Yet, while not merely admitting, but insisting upon this, it is also true that where there is no governmental restraint or supervision some of the exceptional men use their energies, not in ways that are for the common good, but in ways which tell against this common good. The fortunes amassed through corporate organization are now so large, and vest such power in those that wield them, as to make it a matter of necessity to give to the sovereign—that is, to the Government, which represents the people as a whole—some effective power of supervision over their corporate use. In order to ensure a healthy social and industrial life, every big corporation should be held responsible by, and be ac-



countable to, some sovereign strong enough to control its conduct. I am in no sense hostile to corporations. This is an age of combination, and any effort to prevent all combination will be not only useless, but in the end vicious, because of the contempt for law which the failure to enforce law inevitably produces. We should, moreover, recognize in cordial and ample fashion the immense good effected by corporate agencies in a country such as ours, and the wealth of intellect, energy, and fidelity devoted to their service, and therefore normally to the service of the public, by their officers and directors. The corporation has come to stay, just as the trade union has come to stay. Each can do and has done great good. Each should be favored so long as it does good. But each should be sharply checked where it acts against law and justice. . . .

“ The grave abuses in individual cases of railroad management in the past represent wrongs not merely to the general public, but, above all, wrongs to fair-dealing and honest corporations and men of wealth, because they excite a popular anger and distrust which from the very nature of the case tends to include in the sweep of its resentment good and bad alike. From the standpoint of the public I can not too earnestly say that as soon as the natural and proper resentment aroused by these abuses becomes indiscriminate and unthinking, it also becomes not merely unwise and unfair, but calculated to defeat the very ends which those feeling it have in view. There has been plenty of dishonest work by

corporations in the past. There will not be the slightest let-up in the effort to hunt down and punish every dishonest man. But the bulk of our business is honestly done. In the natural indignation the people feel over the dishonesty, it is all essential that they should not lose their heads and get drawn into an indiscriminate raid upon all corporations, all people of wealth, whether they do well or ill. Out of any such wild movement good will not come, can not come, and never has come. On the contrary, the surest way to invite reaction is to follow the lead of either demagogue or visionary in a sweeping assault upon property values and upon public confidence, which would work incalculable damage in the business world and would produce such distrust of the agitators that in the revulsion the distrust would extend to honest men who, in sincere and sane fashion, are trying to remedy the evils.”<sup>2</sup>

<sup>2</sup> From messages to Congresses.



## XVI

# ROOSEVELT AND BUSINESS <sup>1</sup>

OTTO H. KAHN

As a business man it may not be inappropriate that I say a few words concerning the late Colonel Roosevelt's attitude toward business.

Contrary to the opinion held at one time by many, he was a true friend to business, as he was a true friend to every one of the callings which have a legitimate part in the make-up of the nation's activities. He fully realized the importance to national well-being of the growth and prosperity of trade and commerce. He appreciated the place of finance in the scheme of things. He had due regard for the tested lessons of sound economics.

He was no trained business man, but his unfailing intuition of what was right and sane and timely revealed to him the need and the advantage and the safe limits of reform in respect of business practices and business conceptions which had grown up, naturally and almost necessarily, during the surging period of immense material development which set in with the close of the Civil War and which might be termed

<sup>1</sup> Reprinted by permission from *The New York Times*, October 5, 1919.

America's "industrial pioneer period." He saw that business had grown to exercise excessive and in certain aspects almost uncontrolled power, and he knew that such power, whenever, wherever and by whomsoever exercised, breeds abuse and is a menace both to the State and to those even who wield it.

He determined to challenge that power, to impose reasonable restraints and regulations upon it. He believed that if it were left to run its course unchecked, the inevitable result, in due course of time, would be a violent reaction against it, big with the potentialities of great harm to the legitimate interests of business as well as to the people at large and to American institutions. He framed his program without heat or animosity, with that sure adaptation of the means to the end, with that practical common sense and that avoidance of theories and extremes, which always characterized his mental processes and his actions in office.

It took courage at that time to challenge seriously the power of business, and to summon it to surrender certain prerogatives which it had gradually acquired and which it had come to regard as naturally and justly due to it. It had never been thus seriously and definitely challenged before. What afterward became a pastime that any one could indulge in with impunity and with supposed political advantage, what afterward became "business baiting" and harassing bureaucratic over-regulation, was an act of great courage at the time and under the circumstances when Roose-

velt undertook it, and was kept by him within such limitations as to make the measures for which he stood appear conservative indeed compared to those which were enacted subsequently.

He encouraged the co-operation of leading business men in framing and carrying out the measures which he believed to be called for and which he was convinced would prove ultimately for the best interest of business itself. They refused. They believed themselves strong enough to defeat his purposes. They tried to dissuade him, failing in which they set out to antagonize and thwart him. They did not succeed, but the consequence of their attitude was that a bitter conflict was created between Colonel Roosevelt and representatives of business, and that as a result he felt himself called upon to resort to vigorous and incisive appeals to public opinion, appeals which, in the heat of battle, at times went beyond the mark.

Yet while the irritation and the heat, stress, and strain of the fight colored his utterances and affected his actions in individual cases at times, he never permitted himself, in the legislative measures which he advocated and promoted, to go beyond the bounds of moderation and the limits of reasonable correction. In the midst of hard blows given and taken, he retained his unflinching sense of what was sane, balanced, fair, practicable, called for. Vindictiveness did not enter into his program.

Each one of the measures for which he became sponsor



in the great reform movement which he inaugurated has stood the test of time. None of them has harmed or impeded legitimate business, however big in scope. Business would not go back, if it could, to the conditions which, in certain respects, existed before the Roosevelt era.

And just as he had the courage to tackle "big business" in the hey-day of its power and to devise and enforce restraints and remedies, so he would have had the courage to tackle and bring under restraint any other element or combination which came to exercise a degree of power incompatible with the welfare and due balance of the community at large, and tended to become a law unto itself.

It was my great honor and privilege to be consulted by him from time to time, in the course of the past few years, as to the economic and business problems of the day. I know, therefore, how his mind worked and his purposes shaped themselves in respect of these problems. And I know that if he had been called to the leadership of the nation again, as he undoubtedly would have been but for the national calamity of his premature death, he would have builded a structure in which hampering paternalism, outlandish notions, visionary theories and class-serving tendencies would have had no place, in which all constructive forces would have had free scope, and the clashing interests, distracting agitations and confusing aims and claims that are harassing the country would have found themselves under the dominance of a strong peace — of even-handed and enlightened justice.

## XVII

# ORGANIZED LABOR <sup>1</sup>

JOHN MITCHELL

To the ordinary man of affairs, immersed in his business and the daily routine of life, trade unionism may seem a bewildering maze of conflicting ideas and doctrines. Such a man, unless he has a special interest in the subject, is liable to have his opinions formed from disjointed, scattering, and often untrustworthy accounts. At one time he reads of trade unionists attempting to raise wages or reduce hours of labor in a particular factory, or demanding the recognition of the union, or urging a sympathetic strike or resisting or denouncing a federal injunction. At other times, the trade union seems to be taken up with such questions as whether the foreman shall or shall not belong to the union, whether the unionists shall or shall not work with non-union men, whether a particular factory is in a sanitary condition, whether a certain machine is speeded up too much or not enough, whether the temperature of a given factory is such as to endanger the health of the operatives, what differential should be paid for a new machine, and so

<sup>1</sup> Published by courtesy of Mrs. John Mitchell; first published as chapter 1 in "Organized Labor," by John Mitchell.

on. At still other times, he reads of unionists leaving their uncompleted work at the stroke of the hour, demanding the abolition of truck stores, insisting upon the weighing or measurement of their product, refusing to work on goods made by non-unionists, or boycotting certain individuals or products. In some instances the unionists seem to be insisting upon pay by the piece, and in other cases, refusing absolutely to have anything to do with the piece system. At one time the unionists appear to be at war with one another or with employers, and at other times they are meeting amicably in gigantic federations, or legislating in conjunction with associations of employers for the conduct and management of great industries.

In the hundreds of trade unions that exist and the thousands of local groups into which these organizations are divided, various problems are encountered and various measures taken in each exigency. The result is a perfectly bewildering series of rules and regulations in which the ordinary man sees neither rhyme nor reason, except, perhaps, that he observes in vague outline the ever-present desire on the part of the workingmen to improve their conditions and to raise their standard of life and labor. But even when the general public clearly understands this ideal, it fails to see why so simple an ideal requires so many and so elaborate regulations, and in many cases, though the good motives of trade unions are not impugned, their wisdom is questioned.

The complexity of trade unionism, however, is merely the

complexity of human life itself. No matter how simple and fundamental the principles and constitution of an organization, its rules and regulations necessarily become complex as soon as they encounter the diverse conditions that characterize modern life. Law in its simplest form stands for a certain rough ideal of justice and for the maintenance under certain conditions of the life, liberty and property of the individual. While, however, in primitive times the law is simple, direct, and easily recognizable, the cases being decided with the rough-handed justice of the monarch dividing the infant, the intricate complexity of modern life renders it necessary to decide even the simplest cases by reference to hundreds of precedents. The commandment, "Thou shalt not steal," contains a commentary running through hundreds of thousands or even millions of accounts of cases of men who have been tried and acquitted or convicted. Even a simple contract involves the most elaborate series of conditions, expressed or implied, in order to guard the interests of both parties.

In its fundamental principle trade unionism is plain and clear and simple. Trade unionism starts from the recognition of the fact that under normal conditions the individual, unorganized workman cannot bargain advantageously with the employer for the sale of his labor. Since the workingman has no money in reserve and must sell his labor immediately, since, moreover, he has no knowledge of the market and no skill in bargaining, since, finally he has only his own

labor to sell, while the employer engages hundreds or thousands of men and can easily do without the services of any particular individual, the workingman, if bargaining on his own account and for himself alone, is at an enormous disadvantage. Trade unionism recognizes the fact that under such conditions labor becomes more and more degenerate, because the labor which the workman sells is, unlike other commodities, a thing which is of his very life and soul and being. In the individual contact between a rich employer and a poor workman, the laborer will secure the worst of it; he is progressively debased, because of wages insufficient to buy nourishing food, because of hours of labor too long to permit sufficient rest, because of conditions of work destructive of moral, mental, and physical health, and degrading and annihilating to the laboring classes of the present and the future, and, finally, because of danger from accident and disease, which kill off the workingman or prematurely age him. The "individual bargain," or individual contract, between employers and men means that the condition of the worst and lowest man in the industry will be that which the best man must accept. From first to last, from beginning to end, always and everywhere, trade unionism stands unalterably opposed to the individual contract. There can be no concession or yielding upon this point. No momentary advantage, however great or however ardently desired, no advance in wages, no reduction in hours, no betterment in conditions, will permanently compensate workingmen for

even a temporary surrender in any part of this fundamental principle. It is this principle, the absolute and complete prohibition of contracts between employers and individual men, upon which trade unionism is founded. There can be no permanent prosperity to the working classes, no real and lasting progress, no consecutive improvement in conditions, until the principle is firmly and fully established, that in industrial life, especially in enterprises on a large scale, the settlement of wages, hours of labor, and all conditions of work, must be made between employers and workingmen collectively and not between employers and workingmen individually.

To find a substitute for the individual bargain, which destroys the welfare and the happiness of the whole working class, trade unions were founded. A trade union, in its usual form, is an association of workmen who have agreed among themselves not to bargain individually with their employer or employers, but to agree to the terms of a collective or joint contract between the employer and the union. The fundamental reason for the existence of the trade union is that by it and through it, workmen are enabled to deal collectively with their employers. The difference between the individual and the collective or joint bargain is simply this, that in the individual contract or bargain, one man of a hundred refuses to accept work, and the employer retains the services of ninety and nine; whereas in the collective bargain the hundred employees act in a body, and the em-



ployer retains or discharges all simultaneously and upon the same terms. The ideal of trade unionism is to combine in one organization all the men employed, or capable of being employed, at a given trade, and to demand and secure for each and all of them a definite minimum standard of wages, hours, and conditions of work.

Trade unionism thus recognizes that the destruction of the workingman is the individual bargain, and the salvation of the workingman is the joint, united, or collective bargain. To carry out a joint bargain, however, it is necessary to establish a minimum of wages and conditions which will apply to all. By this is not meant that the wages of all shall be the same, but merely that equal pay shall be given for equal work. There cannot be more than one minimum in a given trade, in a given place, at a given time. If the bricklayers of the city of New York were all organized and the union permitted half of its members to work for forty cents an hour, while the other half, in no wise better workmen, were compelled or led to ask for fifty cents, the result would be that the men receiving fifty cents would be obliged either to lower their wages or get out of the trade. To secure to any union man fifty cents an hour, all union men of equal skill must demand at least an equal sum. The man who wants fifty cents an hour is not injured by other unionists asking or getting ten or twenty cents in excess of this minimum, but he is injured by fellow-craftsmen accepting any wage less than the minimum. The same rule of col-

lective bargaining applies to the hours of labor. If all union bricklayers in New York City were to receive four dollars a day and some were, for this pay, to work eight hours, others ten, and still others twelve and fifteen hours, the result would be that the employers would by preference employ the men who were willing to work fifteen hours. As a consequence, the men willing to work only eight or ten hours would lose their positions or be obliged either to reduce their wages or to work as long as their competitors, who were employed for twelve or fifteen hours. What is true of wages and of hours of labor is equally true of all the conditions of work. If some members of the union were allowed to work with machinery unguarded, whereas others insisted upon its protection; if some were to work in any sort of a factory, under any sort of conditions, with any sort of a foreman or master, while others insisted upon proper surroundings; if some were willing to be so over-rushed as to do more than a fair day's work for a fair day's wage, or would allow themselves to be forced into patronizing truck stores, to submit to arbitrary fines and unreasonable deductions, whereas others would rebel at these impositions, it would result that in the competition among the men to retain their positions, those who were most pliant and lowest spirited would secure the work, and the wages, hours of labor, and conditions of employment would be those set or accepted by the poorest, most cringing, and least independent of workers. If the trade union did not insist

upon enforcing common rules providing for equal pay for equal work and definite conditions of safety and health for all workers in the trade, the result would be that all pretense of a joint bargain would disappear, and the employers would be free constantly to make individual contracts with the various members of the union. The trade union does not stand for equal earnings of all workmen. It does not object to one man's earning twice as much as the man working by his side, providing both men have equal rates of pay, equal hours of work, equal opportunities of securing work, and equal conditions of employment. The union does not object to an employer's rewarding especially efficient workers, or even favored workers, by paying them more than the union scale, or granting them shorter hours than provided for by the joint agreement. What the union does stand for is merely equal rates of pay — equal pay for equal work; and while it will allow a man to receive twice as much as his fellow-craftsmen, it will not permit him to do so by underbidding them in wages or by working under less favorable conditions or for longer hours. Neither does the union oppose competition among unionists for positions, although it demands that this competition be solely upon the basis of efficiency and not upon that of reduced wages, lengthened hours, or any abatement from the conditions fixed by the collective bargain.

This principle of trade unionism will explain many of the seeming peculiarities and many of the numerous rules

of labor organizations. It will supply an answer to the question so naïvely put by many people, as to why the union will not allow a man to accept two dollars a day, while all other workers in that trade are receiving three dollars, or to accept forty cents for mining a ton of coal, when the minimum scale is fifty-six cents. "Why," it is inquired, "should not a man be allowed to accept a reduction of wages if he wish? Why should a man be compelled to take more wages than he wants?" The answer of the unions is that as a result of such individual bargains, the employer would give all the work to the men who were satisfied with two dollars a day, and, consequently, the men who demanded three dollars would be thrown out of employment, and therefore forced to accept a lower rate of remuneration. It is this necessity of equal pay for equal work that compels trade unions to say to the employer: "Either you shall pay three dollars to the man who only asks for two, or we will not work for you. We recognize your right to employ or not to employ whomsoever you wish, but either you must pay *at least* three dollars, or else all the members of our union will refuse to work for you."

This necessity of defending the collective bargain, or contract, explains many features of trade union policy. If the union is to maintain its standard of wages by collective bargaining, it must prevent the employer, by individual bargains with individual workmen, from making deductions from wages and thus breaking down the minimum wage

agreed upon between the union and the employer. If trade unions are to tolerate truck stores, not only will unfair and extortionate prices be charged, but individual men desiring the favor of the employer will compete for their jobs by purchasing more and more goods in the company store. Instead of offering to work for two dollars a day when the standard rate is three, a man may simply take for his work an order on the store, which though nominally worth three, will actually be worth two dollars. It is well known that companies operating truck stores for profit in connection with their factories, invariably give the preference in the matter of jobs to men who best patronize the stores, with the result that competition for jobs among workmen becomes as severe as ever, and the consequent undercutting or underbidding takes the vicious form of spending as much as possible at the company store. The toleration of the company store may thus come to mean a series of individual agreements, real but not expressed, by which individual workmen permit themselves to suffer deductions from their real wages in the form of profits on the goods which they are obliged to buy.

The prohibition by unions of arbitrary fines and docking is due to this same desire to maintain a common minimum standard of wages and conditions. Apart from the direct evil and oppression that result from the unlimited powers of employers arbitrarily to levy fines or make deductions from wages, there is the added danger that, by this means, the

employers will break down the collective bargain and substitute for it a series of individual bargains. If the trade unions secure from the employer a minimum daily three-dollar wage, the effect of this common action will be nullified and destroyed if some individual workmen submit in any form to an average deduction of ten cents a day, whether for fines or docking, others to a deduction of twenty cents, and others to one of fifty cents or a dollar a day. The union is not opposed to a deduction from wages in case of proved negligence or poor workmanship; but as these fines and this docking affect the union wage they should be jointly determined upon by the employer and union, and not by the employer alone, nor between the employer and the individual workman. If the individual employee is permitted to make any rebate or allow any deduction whatsoever, under whatever guise, from the wages fixed as a minimum by the union, then the whole principle of a union scale of wages will fall to the ground.

The necessity of maintaining the collective, rather than the individual, bargain explains why the trade union is sometimes opposed to the piece system and sometimes not. When the piece price can be regulated collectively, as in bituminous coal mining, the unions are not antagonistic to, but actually in favor of, this system. Where, however, each separate job differs and a price must be put upon it separately, payment by the piece degenerates into a system of underbidding and undercutting and to the resurrection of



individual bargaining in one of its worst forms. Where the price cannot be fixed collectively and where time wages cannot be paid, the union has solved the problem, at least partially, by having the shop foreman, a representative of all the men in the establishment, fix the price of the work in concert with the employer or foreman.

Like the wage scale, the length of the working day, as determined by the union and employers, must be protected from changes made by individual workmen. The individual workman cannot be allowed to work longer hours than the union prescribes as a maximum, or to work more overtime, or at different times, or for less compensation than is fixed by the collective bargain. If the individual workman is to decide for himself how much overtime he will work, and at what rate of compensation, he can just as surely underbid other workmen as by accepting a lower wage at the start.

There is hardly an action taken by the trade unions, hardly a demand made, which does not either immediately or ultimately, directly or indirectly, involve this principle. Whether the union demand a higher standard of healthfulness, comfort, or decency in the factories, or a greater degree of protection from machinery, or any other concession ministering to the health or safety of the employee, the demand is always in the form of a certain minimum for all workers. The union does not prohibit a man from being paid more wages for less hours than his fellows, but it does claim that no man shall work in union shops for less than a certain

rate, for more than a certain number of hours, for more than so and so much overtime, or at a lower rate for overtime, or with less than a given amount of protection to his health, comfort, safety, and well-being. The employer may, if he wish, make special provision for the health of a favorite workman, just as he may pay above the union rate or allow an employee, in return for the minimum wage, to work less than the maximum number of working hours prescribed by the union. What the union insists upon, however, is that certain minimum requirements be fulfilled for the health, comfort, and safety of all, in order that the workingmen shall not be obliged to compete for jobs by surrendering their claims to a reasonable amount of protection for their health, and for their life and limb.

The trade union thus stands for the freedom of contract on the part of workingmen — the freedom or right to contract collectively. The trade union also stands for definiteness of the labor contract. The relation between employer and employee is complex in its nature, even though it appear simple. The workingman agrees to work at the wage offered to him by the employer, at, say, fifteen dollars a week, but frequently nothing is said as to hours of labor, pauses for meals and rest, intensity of work, conditions of the workshop, protection of the workman against filthy surroundings or unguarded machinery, character of his fellow-workmen, liability of the employer for accident, nor any of the thousand conditions which affect the welfare of the

workman and the gain of both employer and employee. There has always been a general tacit understanding between employers and employees that these conditions shall roughly conform to the usual and ordinary custom of the trade, but in the absence of an agreement with the union, it is in the power of the employer to make such rules absolutely, or to change or amend them at such time as he thinks proper. Like the railroad timetables, the individual contract reads, "Subject to change without notice."

The recognition of the union is nothing more nor less than the recognition of the principle for which trade unionism stands, the right to bargain collectively and to insist upon a common standard as a minimum. Workingmen have a nominal, but not a real freedom of contract, if they are prevented from contracting collectively instead of individually. The welfare of the working classes, as of society, depends upon the recognition of this principle of the right of employees to contract collectively. An employer, be he ever so well-meaning, stands in the way of future progress if he insist upon dealing with his workmen "as individuals." While in his establishment wages may not by this means be reduced, owing to the fact that other establishments are organized, still the principle for which he stands, if universally adopted, would mean the degradation and impoverishment of the working classes. There are many employers who surrender the principle of the individual bargain without accepting the principle of the collective bargain. These em-

employers state that they do not insist upon dealing with their employees as individuals, but that they must retain the right of dealing with "their own employees solely," and that they must not be forced to permit a man who is not their own employee to interfere in their business. The right to bargain collectively, however, or to take any other concerted action, necessarily involves the right to representation. Experience and reason both show that a man, even if otherwise qualified, who is dependent upon the good will of an employer, is in no position to negotiate with him, since an insistence upon what he considers to be the rights of the men represented by him may mean his dismissal or, at all events, the loss of the favor of his employer. Not only should workingmen have the right of contracting collectively, but they should also have the right of being represented by whomsoever they wish. The denial of the right of representation is tyranny. Without the right to choose their representative, the men cannot enjoy the full benefit of collective bargaining; and without the right of collective bargaining, the door is opened to the individual contract and to the progressive debasement of the working classes, and to the deterioration of conditions of work to the level of conditions in the sweated and unregulated trades. To avoid this calamity and to raise the working classes to a high state of efficiency and a high standard of citizenship, the organized workmen demand and insist upon "the recognition of the union."



## XVIII

# THE EFFICIENCY OF LABOR

CHARLES BUXTON GOING

“To the victors belong the spoils.”

Is the law brutal, or is the seeming brutality in the expression? It is the law of nature — the law of evolution. If we refine our definitions of “victor” and “spoils,” if we use the terms in their finest senses instead of their cruder or meaner significance, may it not prove the law of righteousness also — a law spiritual as well as a law natural?

In its more literal interpretation, it is the established law of business. May we not, even in this field, so dignify it, so moralize it by a truer understanding of what it should mean, that it may be made righteous as well as practical?

Industrially, there is no great question as to the definition of “spoils,” but there is turbulent and endless question as to who are the “victors.”

For our present purpose, at least, the spoils are the profits which supply effective stimulus and offer just reward for initiative, energy, skill, labor. They are the cargo of wealth brought back in exchange for the substance, the effort, the



time we have adventured in manufacture and commerce. The Indies of the nineteenth century and the twentieth lie across the seas of invention, of production, of markets. They are richer than any Indies, sought of old; and the vision of Columbus, the faith of Isabella, the courage of the masters of the caravels, and the murmurings of the crew, come down to us through five centuries as prototypes of exactly similar manifestations living and working to-day.

This is the crux of our immediate problem. Returning to our simile, was the victory due, and should the spoils be awarded, to Columbus who dreamed and dared, to Isabella who believed and financed, to the captains who commanded and navigated — or were the crew also among the victors, deserving something more than mere wages, some proportionate share in the greater reward?

Any modern industrial venture enlists and attempts to co-ordinate, to bring together into successful joint effort, elements closely corresponding to those that were enlisted in the enterprise of discovery that opened the gateway to the Western continent. In a broad general way and up to a certain point, their interests are identical. Backers, leaders and followers all live by success, all suffer from failure. But when we pass beyond this point and begin to deal with particulars, the interests of the several parties become different and often hostile. Who are the victors and how shall they divide?

Unfairness in allotting their shares of the spoil is the

energizing force in the current struggle of discontent and political disturbance. Beside the great contending figures of capital and labor, long recognized, another is taking its place — the figure of the consumer, asserting his part in the great development and demanding relief from over-exploitation by the older organized interests. And yet a fourth factor, less vocal and therefore less widely discerned, is by some discovered and declared to be greatest of all — the genius of ideas, by which alone capital and labor are set in motion, made productive forces instead of huge idle possibilities. Financier, inventor, promoter, manufacturer, laborer, distributor, consumer — all are indispensable to the cycle of success. Whose, then, is really the victory, and how shall the spoils be divided?

The question of the hour is a juster division of the profits of industry, first between consumer and producer; second among productive genius, capital, and labor; third among individual laborers. *The difficulty of the hour is the lack of standards and means of measurement* by which a fair scale of division can be determined. The hope of the hour is the growth of scientific study of industry, and the definition of principles of efficiency by which standards can be fixed and true measurements of individual output can be made as a basis for the just apportionment of individual reward.

So far, while capital remains in the position of control, the Laborer has been most energetic among the other ele-

ments demanding larger recognition. For this there are many reasons. His concreteness as a definite and well recognized factor in production cost; his progress in organization and cumulative use of his influence; his vehemence in the double rôle of producer demanding a larger share, and consumer struggling against the pressure of increased cost; his elemental resort to physical force in support of his argument — all these have given him a greater prominence, possibly, than his actual value, proportionate to some of the other factors, might justify.

At all events, every investigation of industrial phenomena comes quickly, if not immediately, to the Laborer. He is the central point of some, and an important factor in all, of the modern philosophies of management which seek to meet the conditions consequent on "big business."

It is deplorable that organized labor has so generally misunderstood and resisted all efforts at correct measurement, by which alone a just scale for division of profits can be established — by which, indeed, just division would ultimately be compelled, not only as between one worker and another, but as between all workers and all employers. Nevertheless, some advance has been made. It is the purpose of this article to sketch the several theories or policies of management which have so far gained recognition, to place them in contrast, and to discover their common relation, if any, to the underlying idea and theme of this series.

During the now celebrated rate hearings before the In-

terstate Commerce Commission in Washington, held in November, 1910, it was testified that the introduction of what was then for the first time named "Scientific Management" had changed the fortunes of a certain Philadelphia machine manufacturing works from bankruptcy to prosperity. Seventy men were comfortably and successfully producing two to three times as much as had been turned out under the old methods by one hundred and five men. They did not work any harder than before, but worked more efficiently. Their wages had been increased from 25 to 30 per cent. above the old rates, and the selling price of the product had been reduced to the consumer 10 to 15 per cent. below the figures he had formerly paid.

To the initiated there was nothing new in this. The philosophy and methods followed had been made known to industrial audiences years before. Only the name attached to the system and the dramatic presentation of its effects were novel. But lest the instance quoted seem to the public isolated and special, case after case, in varied industries, builds up the record.

In a textile mill in New Jersey, the experience of years preceding and succeeding the historic date mentioned, proves an increase in output of 100 per cent., a reduction in manufacturing cost of 40 per cent., and an increase in individual wage earnings varying from 40 to 70 per cent. But it is no process of mere labor driving. "The workmen distinctly improved in personal appearance, the improvement being so

universal and so marked as to be always distinctly recognizable. The girls invariably acquired a better color and improved in health."

Fresher, simpler, less comprehensive but more striking, is the testimony of a letter written about three months ago by one of the proprietors of a typical eastern metal-working plant:

I am very much of an enthusiast as to the efficiency movement, for the reason that about two years ago I took up this question in our plant and have succeeded in reducing our expenses at the rate of \$150,000 a year, with a clerical force very much reduced instead of increased; and as a result of the initial steps in this efficiency work, I can see my way clear within the next year to reduce expenses \$50,000 more.

Remarkable statements are these; for they are not expressions of hope, estimates, promises of counseling engineers. They are reports from owners and operating officials, made after the work has been carried out and tested in practical service, proved by the books to the satisfaction of the men who are paying the expenses and receiving the profits. And these gains are made in an era of diminishing returns. They are made without the peculiar economies incident to Big Business, by which, indeed, Big Business pleads its economic justification.

Are the principles and measures compatible with the philosophy of Big Business? Can the active factors of Big Business and of the scientific pursuit of efficiency be co-

ordinated so as to accelerate this elimination of waste, this enlargement of the margin of accumulated wealth, upon which, if justly distributed, further general prosperity may be safely and happily built?

The causes of the gain are not clouded by any doubt in the minds of the industrial managers making these reports. They stand vividly distinct and brilliantly illumined. In every case the result followed the introduction of ideas that differ, not in degree, but in order, from those commonly embodied in industrial practice. The managing mind or the bodily activity was not merely driven harder over old paths to its goal. It found smooth highways toward achievement provided for it, in place of rough trails and wagon tracks.

In every case, the genius that brought this golden treasure out of the dull storehouse of industry in which others work so hard for so much scantier gain, was a genius of looking at old facts in a new way — of applying new principles and methods to the accomplishment of a long familiar result. It was like in kind to the genius that made transportation easier, travel swifter, by successive steps of invention: first, the wheeled cart in place of the dragged load or trailing poles; then the smooth rail in place of the rough road for the wheel to run on; the steam or oil or electric motor in place of the draft animal to propel the car. Each step kept in sight and was inspired by the same ultimate purpose — to move a vehicle and its load from one point to



another. But each new increase in weight moved or speed attained was gained not by pushing the old system harder, but by introducing a new way or "order" of working, by which more useful result is secured for the same, or even for less, effort expended.

This same sort of improvement which inventive minds, working through centuries, have effected in conducting transportation, the newer doctrine and practice of efficiency in operation and scientific management apply to the conduct of industry at large. It is more subtle, because it deals in part with things such as systems, customs, standards, ideals, which are not directly visible as the machine is; but it is like in kind. It progresses not by speeding up the old way but by finding and using new, swifter and easier ways.

Thus far a single explanation may apply to all the cases cited and be accepted as a general introduction by all parties and schools. But we are likely, at the next stage of our inquiry, to be confused by the very abundance of the revelation that follows, and bewildered by the multitude of the prophets all prophesying together with a very loud voice. The listener is tempted to borrow Paul's exhortation to the Corinthians: "If any man speak in an unknown tongue, let it be by two, or at the most by three, and that by course; and let one interpret." In plainer prose, there are so many who announce themselves as apostles or disciples of scientific management, so many who offer to apply it practically, and

their definitions and doings are so diverse, that the skeptic (or even the convert) may well be confused and grope and stumble in trying to find the common faith underlying so many creeds.

Out of the very welter of argument and Babel of voices, a contemplative student, however, may separate four main systems of thought and practice. One is old-school, the school of coercion and strenuousness, represented by the age-long institutions of day wage and piece rates. The second is transitional, represented by the philosophy of initiative and incentive, as expressed in the gainsharing or premium systems of Halsey, Rowan, Ross, and others. The third and fourth are modern — the philosophy of scientific management and efficiency, taught by Taylor, Gantt, Emerson; and the philosophy of "suggestion," embodied in the Hine "unit organization" or the Carpenter "committee system" of management. Profit sharing and co-operative stock distribution, so far as they are philosophic, belong to this last school of suggestion; that is, of establishing new mental relations between the worker and his work — of giving him a new point of view by which its effort, its purpose, and its result appear in a more clearly illumined perspective.

The old methods of hire and service were not without their fine points. In simpler days, when the relation was personal, the sense of mutual responsibility was sometimes strong, the discipline often heroic. But with the growth of

the manufacturing system, something was lost; and its loss has changed the whole complexion of the matter. What it was, the purpose of this analysis is to discover.

The newer doctrines and their disciples seem at first glance to differ widely among themselves, because they differ so in "ritual" — that is, in the established institutions, acts, systematized practice, forms, and names of things used to express and enforce their ideas. What if it should prove nevertheless that they all have the common quality of restoring in some degree this missing factor — this factor that present-day manufacturing methods have suppressed and canceled out?

The introduction of power and machinery exaggerated enormously three great tendencies which have now become dominant in the manufacturing system. One is centralization — the gathering of workers about great reservoirs instead of their distribution among many little springs of power, of equipment, of capital. Another, naturally following, is standardization — the reduction of wares of all kinds to fixed forms, prepared by comparatively few skilled designers, which forms the great body the rank and file reproduce mechanically. The third is specialization, or the subdivision of the making of any article into a multitude of operations, committed each to different hands, so that the share of any individual worker is endless repetition of a closely limited task.

Man and thing manufactured lose, as it were, individual-

ity when they enter the plant, and regain it again only when they emerge. Man and job,<sup>1</sup> their identity minimized, are merged into the group, the class, the system. And under the old order of day wages, with the relations between task and time, between time and output, between man and employer, thus obscured, the knowledge of what constitutes a "fair day's work" becomes confused, progressively wanes. Standards of measurement are lost. Vague averages take the place of personal records; and these averages, under the law of the crowd, tend always toward the pace of the slowest. Incentive to individual efficiency dwindles, disappears. Incentive to class strengthening, class prejudice, increases. Collective bargaining takes the place of individual contract. Coercion becomes a governing principle, solidified labor seeking to drive the wage up and the output down, solidified employment working for the contrary result.

Piece rates, under which each worker is paid according to output, seemed to afford a better way. But being generally set with insufficient knowledge and care, and cut (or in the euphemism of the shop, "readjusted") whenever the worker's earnings have risen far above the ruling rate for his class, these rates in turn fall under the rule of collective bargaining as to the piece prices set, and under tacit, if not open, coercive class regulation as to the maximum output or the number of pieces any worker may make. So conditions

<sup>1</sup> The word "job" seems somewhat lacking in dignity, but there is no equivalent. It means the unit task covered by a single order given to the workman.

soon pass again under the rule of coercion and strenuousness, maximum effort for a very moderate result.

Such is the old order, constituting so large a part of the industrial system, that it influences the whole. The voices of those who have been so steeped in it that they are unable to sense any other, are still far the loudest or the most multitudinous in their crying among the four groups above differentiated.

Enormous economies resulted from this manufacturing system. As a whole, it has been so effective that any retrogression within it was lost to sight in the great forward sweep. Nevertheless, retrograde movements came into being; and one of them is a decline in individual efficiency. The worker with the new equipment provided may produce absolutely much more than his predecessor did, and yet produce relatively less, as shown by comparing what he now does with the achievement that would be reached if he used the new machinery and methods with the old-time energy and skill. For example: modern machinery may enable an operator to turn out ten times as much as the same effort would produce with the hand-tools formerly used. If he turns out six times as much, he is only 60 per cent. as efficient, though he may seem six times as effective as the antecedent hand-worker.

Next in number stand those who adopt the second, or "transitional," theory of "initiative and incentive"; of accepting the ruling wage, the ruling rate or pace of working,

without contest, but of offering (as a purely voluntary matter on both sides) extra compensation to the worker who exceeds the average pace. Here is seen the first glimpse of that great common factor of all the newer and more hopeful doctrines — a factor which at the end we may discover in a new light and under an unexpected interpretation.

Practically, these “premium” systems<sup>2</sup> of incentive are simple in introduction and in administration. Day wages, as already said, are undisturbed. But “standard times” for operations or jobs are set by observing good average performance under fair average conditions. Individual time records for each worker are then kept. The wage value of any time saved by any worker or on any job (determined, of course, by comparing his actual time on this job with the standard time set for it) is then divided between him and his employer. Premium earnings are kept separate from regular wage earnings. Their acceptance or rejection by the employee is optional with himself; but rejection, even if insisted upon at first through suspicion or devotion to supposed class interests, is rarely persisted in.

The plan is so conciliatory, so devoid of cause of offense, or of creation of any issue, that it appeals to many who shrink from going any farther. Certain defects of operation it has which it is not pertinent to take up here. The organic defect is that as the initiative rests with the worker, it cannot operate beyond methods of betterment that are

<sup>2</sup> The Premium Plan of Paying for Labor, F. A. Halsey: *Transactions American Society of Mechanical Engineers*, June, 1891.



within his knowledge or improvement of conditions that are under his control. Inefficiencies of plant arrangement, equipment, operation, assignment of work, methods prescribed, supplies and tools furnished, and many others (often together constituting far the largest influence on total efficiency) are only remotely and feebly affected.

Nevertheless, here we have the germ of the great idea — *Separate consideration of every job, separate observation of every man; standards and records — the beginnings of restoration of individuality.*

In the third cult, "Scientific Management," as it has been lately called, a vast extension of view appears.<sup>3</sup> Betterment of performance no longer depends upon the thought, the special skill, the personal effort, of the worker. Scientific study, pursued by the ablest special talent obtainable, is made *not merely of the work as it is carried on, but as it might be better carried on*; of improvements in materials, in methods and appliances, in machinery and equipment, in power generation and applications, in arrangement of the plant, in routing and dispatching work through the plant, in personnel and organization under which the plant is operated.

The management assumes a fully equal share of responsibility and service, in helping the men to work harmoniously, effectively, wholly on productive labor, and not at all in heavy and unprofitable toil of overcoming removable ob-

<sup>3</sup> "Shop Management," F. W. Taylor; "Scientific Management." *Ibid.*: Harper & Bros.; McGraw-Hill Book Co.

stacles. For each man's work and for the operation of the factory as a whole, the process is like that of smoothing out the bends and removing the constrictions and obstructions in a pipe line. Things may be torn up and disturbed during the process; but when the changes are complete, the internal friction, the whirls and eddies, the bursting strains, all are relieved. The flow becomes swifter, the delivery larger, though the driving pressure be not a whit increased.

While the several apostles of scientific management agree closely on the primary faith, they differ widely in the articles of their creeds. The Taylor system is both scientific and systematic. It holds to certain fixed institutions which have proved effective, and insists upon their general acceptance and adoption. It demands complete devotion and the use of an "orthodox" ritual. It changes the very form of organization, replacing the long-familiar direct line of authority and office by its eight "functional foremen," each workman having eight actual and five visible "bosses." Emerson,<sup>4</sup> leaving the old line intact, supplements it by "staff" counsel. Both Emerson and Gantt (though Gantt adopts the "functional" rather than the "staff" idea) are inclined to be more liberal, more elastic, more adaptive — to use institutions that exist, molding conditions and operations so as to fulfil as well as possible the ends they are convinced are fundamentally important. They proceed, to ex-

<sup>4</sup> "Efficiency as a Basis for Operation and Wages," Harrington Emerson; "The Twelve Principles of Efficiency," *Ibid.*: The Engineering Magazine Co.

aggerate the figure, somewhat as the Church fathers did when they invested heathen festivals or superstitions with new meaning and influence.

In psychology, also, as expressed in the incentive of reward offered the worker, these masters differ, though by a different division. Under the Taylor and Gantt methods, after conditions have been standardized, a standard task (usually a daily task) is set. A relatively large "bonus," lying generally between 20 per cent. and 50 per cent. of the regular day wages (which are undisturbed and remain as a minimum to every worker), is given to the man who accomplishes the standard task, with a proportionate increase if he exceeds that task. Unless he actually reaches the task limit, however, he gets day wages only; though for special encouragement, or to compensate for accidental interference, the bonus may be granted in some particular case by special intervention.

Emerson, on the other hand, having set standard times under the standardized conditions, and having likewise accepted ruling day wages as the basis of agreement and minimum of compensation, keeps records of individual performance over an extended bonus period, usually a month. Each man's efficiency is determined by the proportion between his actual achievement in that period, and the standard predetermined achievement. If he reaches the standard, if, in other words, his efficiency is 100 per cent., he gets as bonus an addition of 20 per cent. to his wages for the period.

But if the worker shows even 67 per cent. efficiency, he begins to receive a small bonus, rising on a sliding scale at an increasing rate of acceleration as the man's efficiency improves, until it reaches the 20 per cent. already mentioned for a performance 100 per cent. efficient. Above that the bonus rises steadily, 1 per cent. more for each 1 per cent. additional efficiency.

We thus have here something of the same nebulous zone between low performance and high performance, something of the same almost insensible transition between the status of the under-competent and that of the fully competent, that we have under the premium plans. A slight but increasing reward is expected to lead the reluctant step by step, even if he cannot jump. The effort is to raise, in some measure, the efficiency of the whole body of labor.

Under the Taylor and Gantt<sup>5</sup> systems, on the other hand, there is no such twilight region. The line between no-bonus and bonus-earning is abrupt and emphatic. It is not an inclined plane, but a vertical step. Added emphasis, even, is sought and encouraged by fostering social distinctions based on bonus earnings. The tendency is selective — *to segregate from the mass of available labor the individuals who are "standard" for the particular work in hand*, distributing the others to other occupations for which they may be better fitted. The premium plan repudiates the task idea. The Emerson efficiency doctrine ameliorates it. The Taylor

<sup>5</sup> "Work, Wages and Profits," H. L. Gantt: The Engineering Magazine Co.

differential and Gantt bonus policies emphasize it. Psychologically, these differences are highly important.

Nevertheless, beyond the differences is one underlying idea becoming clearer. *Knowledge of the work, of each workman*, is now supplemented by intimate, exhaustive knowledge of machines, processes, conditions, duties not only of employees but of officials, management, organization. The searching light of scientific inquiry beats upon every part of the entire undertaking. Systematic records gather into a widely accessible treasury many private funds of knowledge formerly scattered in perhaps obscure and silent private stores.

Lastly, we come to the fourth school, the school of suggestion. It is the most difficult to present adequately, because its expression in practice is not only accomplished with relatively slight physical elements, but also varies widely because different practitioners use different sorts of psychological appeal. Indeed, it is only fair to the authors of the ideas grouped here under this definition to assume the whole responsibility for that definition, and to relieve them of any criticism that may fall upon this interpretation of their active influence.

Perhaps the best mode of exhibiting the theories in question will be by brief examples:

Under the Hine unit system,<sup>6</sup> then, the operating organi-

<sup>6</sup> "Modern Organization," Charles DeLano Hine: The Engineering Magazine Co.

zation of a railway, instead of consisting of a general superintendent, a superintendent of motive power, a chief engineer, a superintendent of transportation, a general storekeeper, and a superintendent of telegraph, etc., consists of a group of "assistant general managers." "The number may vary with the size of the jurisdiction, but is normally eight, including the man previously *the* assistant general manager, who, to avoid misunderstanding, is reappointed as the senior, or number one on the new list." Similarly, in each division of the railway, the titles master mechanic, division engineer, train master, traveling engineer, and chief dispatcher, disappear; and in their place are substituted a group of assistant superintendents, varying from one on a very small division to twelve on a very large division, but normally six, again, "including the man previously *the* assistant superintendent, who, to avoid misunderstanding, is reappointed as the senior, or number one on the new list." "No distinct grade of senior or chief assistant is created in any unit." Normally, number one, the real senior, is "on the lid," as it is termed, at headquarters, and is excused from outside road duties.

Functions, of course, are specialized; but the change of title carries with it insensibly a changed vision of responsibility. It is no longer for the selfish interest of a department, but for the total efficiency of the road or the division. The old-time difficulty of getting officials to interest themselves along broader lines of activity gradually disappears.



No importations of enthusiasts, no infusion of fresh blood, is made, but "the good old wheel horses show their ability to move somewhat faster when the way is made easier; when the ruts of narrowing specialties and the hurdles of departmental prejudices have been removed." While there are collateral changes in office administration and departmental routine, the essence of the idea is the alteration of conduct and attitude by a change in mental outlook.

Under the Carpenter system <sup>7</sup> (which applies characteristically to industrial operations, as the Hine unit organization does to railway operation) great emphasis first is laid upon a committee system, by which officials responsible for the prosecution of the work are brought into frequent meetings to report upon existing conditions and to furnish estimates or to commit themselves to agreement as to what can be accomplished in the immediate future. Second, an immediate record is made of these reports and undertakings, usually on a blackboard, so that the official goes down in black and white before his fellows, and knows that the record will confront him at the next meeting. Third, this system of conference and consultation, with some attendant emulation, is carried down even to assistant foremen and job bosses. Fourth, a system of individual reward by a slight increase of wages or small promotion is used to encourage and distinguish the man who strives for and attains more than ordinary efficiency.

<sup>7</sup> "Profit-Making Management in Shop and Factory," C. V. Carpenter: The Engineering Magazine Co.

Here is another proposal for breaking down blind walls about the individual provinces, and widening the horizon, even of the minor official.

Gilbreth's philosophy<sup>8</sup> has been developed and applied chiefly in connection with building and general contracting. His best-known work has been in the simplification of operations by very skilful and very interesting eliminations of traditional but needless waste of effort or method.

One example often quoted (as all classics are) is taken from the operations of bricklaying. The work is far older than the Egyptian bondage — older than the Tower of Babel. It might be expected to profit by everything that mere practice could supply. But the motions of handling brick, mortar, trowel, the line, were studied and much simplified. Bricks and mortar were supplied in the most convenient arrangement in the most convenient position. The bricklayer no longer has to stoop, lifting 180 pounds of his own body with every nine pounds of brick. He no longer had to toss every brick, testing it for top and bottom. All brick were brought to him proper face up, in convenient packets.

The scaffolding, by simple mechanical means, was kept constantly at the most convenient height. The bricklayer, by easy movements, transferred brick on a short horizontal path from packet to wall. He did not toil so hard as be-

<sup>8</sup> "Motion Study," Frank B. Gilbreth: D. Van Nostrand Co. "Field System, Brick-Laying System": *Ibid.*: Myron C. Clark Publishing Co.

fore, but his work was all bricklaying, not mere lifting and juggling of weights. His day's accomplishment, with less physical tax, rose from 1000 bricks to 2700.

So far Gilbreth's practice is strictly scientific. But passing beyond that into the school of suggestion, his practice is characterized by four major principles. First, the separation of the work so that, as far as can possibly be managed, each man works separately and individually — that is, so that his separate individual performance can be distinguished and measured. Second, constant observation by a sufficient force of timekeepers to record individual performance from hour to hour. Third, conspicuous and immediate posting of these records so that comparison between man and man, or, if unavoidable, between gang and gang, can be made every shift, if not indeed every hour. Fourth, reward of some kind (and experience shows that it may be of the most varied kind, substantial or sentimental, so long as it is positive and conspicuous) for the best performance or performers, and admonition for the poorest.

Individual records, continuously taken, openly posted. Here is an elemental practice that the most elemental man can grasp — to which the simplest intelligence responds by some of its simplest emotions. Have we at the end come upon an element common to all these complex philosophies? Has our pursuit of the underlying idea brought us, more by natural course than prepared design, to discover that great common divisor?

Standard times and individual time measurements; scientific planning and written instructions for every job; permanent records, and separately measured rewards for varying personal efficiency; elevation of the departmental official to a plane of general outlook and survey of his work as related to that of his fellows; committee meetings with open debate and conference and posted minutes — what is the essence of all these but *light, more light?* Shadows of forgetfulness and ignorance, secrecy in which man or task may lag or lurk unobserved, are flooded with illuminative study. Task and man are brought up to the clear horizon of observation and knowledge. That which was hidden is revealed, and that which is revealed is made patent to all. The true basis for fixing the share in the victory and the just claim on the spoils is established.

The great common divisor of all the methods (not the entirety of any one, but an imposing factor of all, whether they be incentive, scientific, or suggestive) is *discovery, illumination, definition and dissemination of knowledge* — the open, accessible declaration of all material facts affecting any transaction, for the information and guidance of all whose interests are involved therein.

Using the term, not in its lower and narrower meaning, but in the highest and finest sense that can be given it, the universal factor — the great common divisor — of all the new philosophies by which industrial efficiency is increased is — *Publicity*.



## XIX

# CAPITAL SUBMITS TWELVE LABOR PROPOSALS <sup>1</sup>

The Capital Group of the Industrial Commission in session at Washington, October, 1919.

*Production.*—There should be no intentional restriction of productive effort or output by either the employer or the employes to create an artificial scarcity of the product or of labor in order to increase prices or wages.

*The Establishment as a Productive Unit.*—The establishment rather than the industry as a whole or any branch of it should, as far as practicable, be considered as the unit of production and of mutual interest on the part of employer and employe. Each establishment should develop contact and full opportunity for interchange of views between management and men, through individual or collective dealings, or a combination of both.

*Conditions of Work.*—It is the duty of management to make certain that the conditions under which work is carried on are as safe and as satisfactory to the workers as the nature of the business reasonably permits. Every effort should

<sup>1</sup> Though the Commission was not long in session, these proposals have more than temporary significance.



be made to maintain steady employment of the workers both on their account and to increase efficiency.

*Wages.*—The worker should receive a wage sufficient to maintain him and his family at a standard of living that should be satisfactory to a right minded man in view of the prevailing cost of living. Women doing work equal with that of men under the same conditions should receive the same rates of pay and be accorded the same opportunities for training and advancement.

*Hours of Work.*—The standard of the work schedule should be the week, varying as the peculiar requirements of individual industries may demand. Overtime should, as far as possible, be avoided, and one day of rest in seven should be provided.

*Settlement of Disputes.*—Each establishment should provide adequate means for the discussion of all questions and the just and prompt settlement of all disputes, but there should be no improper limitation or impairment of the exercise by the management of its essential function of judgment and direction.

*Right to Associate.*—The association of men, whether of employers, employes or others, for collective action or dealing confers no authority and involves no right of compulsion over those who do not desire to act or deal with them as an association. Arbitrary use of such collective power to coerce or control others without their consent is an infringement

of personal liberty and a menace to the institutions of a free people.

*Responsibility of Associations.*—Every association, whether of employers or employes, must be equally subject to public authority and legally answerable for its own conduct or that of its agents.

*Freedom of Contract.*—With the right to associate recognized the fundamental principle of individual freedom demands that every person must be free to engage in any lawful occupation or enter into any lawful contract as an employer or an employe and be secure in the continuity and rewards of his effort.

*The Open Shop.*—The principles of individual liberty and freedom of contract upon which our institutions are fundamentally based require that there should be no interference with the "open shop." While fair argument and persuasion are permissible, coercive methods aimed at turning the "open shop" into "closed union shop" or "closed non-union shop" should not be tolerated. No employer should be required to deal with men or groups of men who are not his employes or chosen by and from among them.

*The Right to Strike or Lockout.*—In the statement of the principle that should govern as to the right to strike or lockout a sharp distinction should be drawn between the employment relations in the field (a) of the private industry, (b) of the public utility service and (c) of government employment, federal, State or municipal.

In private industry the strike or the lockout is to be deplored; but the right to strike or lockout should not be denied as an ultimate resort after all possible means of adjustment have been exhausted. Both employers and employes should recognize the seriousness of such action and should be held to a high responsibility for the same. The sympathetic strike is indefensible, anti-social and immoral. The same may be said of the blacklist, the boycott and also of the sympathetic lockout.

In public utility service the public interest and welfare must be the paramount and controlling consideration. The State should, therefore, impose such regulations as will assure continuous operation, at the same time providing adequate means for the prompt hearing and adjustment of complaints and disputes.

A strike of government employes is an attempt to prevent the operation of government until the demands of such employes are granted, and cannot be tolerated. The right of government employes to be heard and to secure redress should be amply safeguarded.

*Training.*— Practical plans should be inaugurated in industry and outside of it for the training and upgrading of industrial workers, their proper placement in industry, the adoption and adaptation of apprenticeship systems, the extension of vocational education and such other adjustments of our educational system to the needs of industry as will prepare the workers for more effective and profitable service to society and to himself.

## XX

# THE REAL LABOR PROBLEM <sup>1</sup>

NICHOLAS MURRAY BUTLER

If we abandon our fondness for abstractions and look at any industrial process just as it is we quickly discover that it is an enterprise in human coöperation, and that in it there may be and usually are three different kinds or sorts of co-operating human beings — those who work with their hands, those who work with their brains and those who work with their savings. These are all alike essential to productive industry, and production is the joint enterprise in which all are engaged in common. In the case of the steel industry, for instance, a skilled employe in a rolling mill who has bought some of the stock of the United States Steel Corporation represents in his own person all three kinds of coöperating influence. He works alike with his hands, with his brains and with his savings. This is an almost ideal condition, and one which we should strive to make just as universal as possible. If industry, then, whether it be the mining of coal, or the transportation of freight, or the cutting and sawing and trimming of timber, or the packing of salmon, or the manufacture of paper from woodpulp, or the

<sup>1</sup> An address delivered October, 1919, before the Institute of Arts and Sciences.

spinning, dyeing, weaving and printing of cotton, is truly an enterprise in coöperative production, it follows that every coöperating agency is directly interested both in the quantity and the quality of the product.

When this point has been made clear and industry is viewed as a coöperative enterprise in production, then it follows that those who work with their hands, like those who work with their brains and those who work with their savings, are entitled to take part in the organization and direction of the industry and to have a voice in determining the conditions under which their coöperation shall be given and continued.

The policy of reasonableness will carry us a step further. The industry so conceived and so organized will have to sell its product at a price that will enable it to pay to those who work with their hands a thoroughly satisfactory wage, to those who work with their brains an approximate salary and to those who work with their savings a definite minimum return based upon the current value of money. As the wages and the salaries must be paid in any event, it is interest or dividends upon savings which must bear the brunt of any shortage in net income. The cost of depreciation and replacement is also to be met. When all these have been provided for whatever remains is profit. Reasonableness indicates that this profit should not go to one group alone of the three who coöperate in production, but should be apportioned between all three groups in accordance with

a plan drawn to meet the facts of a given industry. If, on the other hand, there be a loss instead of a profit, or a deficiency in the amount needed to meet all of the items just stated, the amount of that deficiency is met, as matters now stand, by those who work with their savings alone.

There is merit in the suggestion that a given industry should, in years of prosperity, establish an undistributed reserve fund against which should be charged any losses that might subsequently be incurred. It is impossible, however, to cover all contingencies by one formula. It would appear to be a complete justification of the method of reasonableness if industry be viewed as an enterprise in coöperative production; if the three coöperating agencies be all recognized and treated as human beings and not as abstractions; if the reward of each of these agencies be seen to be derived from the product and from it alone; and if the joint and coöperative interest in a common product be maintained and increased by giving to representatives of each of these elements a direct share in the conduct and control of the industry and its policies.

A system of industrial organization such as this is not only entirely compatible with our American principles of government and of life, but it is nothing more than a decent application of those principles to modern industry. There would be no "wage slavery" under such a plan.

The rule of reasonableness in the field of industry will probably no more certainly supplant entirely the rule of



force than will be the case in the field of international relations; but, as in the case of international relations, the habit of reasonableness will more or less speedily supplant the habit of force. Until the millennium comes and until selfishness and greed disappear from the world there will be no frictionless industrial machinery. All that can be hoped for is to apply the methods of reasonableness and to support those methods by good will, by sympathy and by kindly criticism of happenings as they occur. This way lie peace, progress and the preservation of American institutions and ideals.

If, however, we are not to use or are not to be permitted to use the methods of reasonableness in dealing with these problems, then we must be prepared for the use of force. This alternative is shocking. It would mean nothing less than the substitution of anarchy for order, of physical power for justice and of a perpetual struggle between changing and conflicting interests for the calm and temperate discussion of principles. It would almost certainly involve the destruction of the individual's moral right to own property, which right is itself an attribute of liberty and an essential condition of social and political progress.

Recently the startling doctrine has been taught and practised that the strike may be used to enforce the views and wishes of a small minority of the population in matters relating not only to public transportation and to other public utilities, but to political and public acts of every sort. This

is to call back the *Liberum Veto* of ancient Poland with a vengeance. According to this doctrine, a group of individuals who do not approve of the tariff levied on wool may unite to make impossible the operation of a steamer which carries a cargo of wool from Argentina to the United States, or to prevent the unloading of such cargo when the steamer reaches the docks of New York. The government of the United States may deem it necessary to send troops and to ship munitions to Siberia, but under this doctrine stevedores and longshoremen at the ports of San Francisco and of Seattle would be entirely justified in refusing to load or to permit to be loaded the vessels which were to carry such troops and munitions in case they as individuals should happen to disapprove of the government's policy in this regard. Still others might say that they would refuse to assist in operating the railways of the United States, and would unite to prevent their being operated by others, unless a certain designated public policy in regard to railway ownership and operation were quickly adopted.

It must be apparent from these illustrations that without complete loyalty to the democratic principle, without respect for law, without sincere devotion to American ideals of government, and without good will on the part of all elements and groups of society, the economic and political life of the nation can no longer go forward, and that we are in imminent danger of national shipwreck and of incalculable disaster.



## XXI

# COMPETITION AS A SAFE- GUARD TO NATIONAL WELFARE <sup>1</sup>

TALCOTT WILLIAMS

We need to remember and as constantly forget that free competition, like personal freedom, is the last child of promise and of the constitutional covenant born to organized society. Civilization and a very high civilization may exist without free competition, free contract or personal freedom. It may exist where these are the portion for but the few, as in a Hellenic city state. But free competition, free contract and personal freedom for all men is the last gift of high civilization. This has only existed for a century in England. It is just half a century old in this country, and began with the abolition of human slavery. The real issue, threatened on the one side by the directing forces of capital who seek to continue monopoly and privilege through the trust, and threatened on the other by the laboring forces of society through trades unions, without violence in the American Federation of Labor and with violence in the Industrial

<sup>1</sup> Address before American Academy of Political and Social Science. See *Annals*, July, 1912, pp. 74-82.

Worker of the World, is whether these three precious gifts of slow time and a long martyr roll shall be preserved in the industrial development of society now before us, or destroyed entirely by these two agencies. Capital seeks monopoly at the cost of free competition, free contract and the personal freedom and equality of choice and use in any trade, transportation, production or manufacture, because the directing minds of the capitalized industrial forces of society honestly believe that their complete and efficient development is only possible at the sacrifice of free competition. The directing minds of labor, aided by all economic students who have acquired or inherited the college settlement type of mind,—most useful in modern society but more interested in the distribution of the product than in efficient production,—as honestly believe that a larger and adequate share in the product of the joint effort of capital and labor can only be secured through the frank surrender, by the individual, of free contract, free competition and the personal freedom of a free choice of any pursuit or labor, for which a man is fitted on even terms with every other man.

Trust and union are equally honest in their claim. It is an error to think that those who manage trusts are seeking solely the wealth which they will obtain. Every able man in this field is interested as much in accomplishing great things as in amassing a great fortune and his conviction is that free competition, free contract and complete personal liberty in all commercial relations cannot be permitted without injury

to industrial development. The trades union and its leaders alike believe, as John Mitchell said nine years ago to the anthracite miners, that it has ceased to be possible for men to rise, that a stratified organization of society must be accepted and that those on a particular level of ability must be satisfied to take less than they could earn under a system of free competition and free contract, in order that the average may be raised for those who are less able, less industrious and less efficient. Both these new economic forces, the trust and the union, will endure and do great good, but neither can be allowed to limit free competition, free contract and personal freedom.

This proposal to sacrifice these rights to industrial development on the one side, and to a higher average wage, on the other, is the more easily made because these rights are recent, not yet part of the common consciousness of society. Under mediaeval conditions free competition did not and could not exist. When land transportation is carried on by sumpter-mules, moving at three miles an hour on a dirt road, burdened with the cost of a guard against highway robbers, each city is an independent economic integer. When famine comes, it is not possible, under these conditions, to carry grain to save the starving a distance of over one hundred and fifty or two hundred miles. Today, in the East, in places which are separated by these intervals, plenty may exist in one tract and starvation unto death in another. The mediaeval city was an economic world to itself. Within



its limits the guild jealously guarded a monopoly of each particular mechanic art and the members of the guild, enjoying "the freedom" of a particular trade, were able to exclude wholly anyone else from joining it. The denial of the personal freedom of the choice of any trade wholly cut off free competition, free contract and the personal freedom of the individual. This endured in France until it was ended by the Revolution. It existed over Europe until it was ended by statutes passed at various dates between the opening of the nineteenth century and the organization of modern states, the last of them in Germany, Austria-Hungary and Italy. Over great tracts of Russia and nearly all of Asia general competition between regions in trade, products and supplies is limited to the wares and articles used by the few. Except on the sea coast and as foreign wares penetrate the interior, the free competition which cheap transportation, free to all, has introduced into the modern economic world does not and cannot exist. As every one knows, caste in India is primarily an economic and industrial and not a religious division of society. Nearly all the castes are, historically, comparatively recent. When population began to impinge on food, free competition, in the supply of food, which the triple expansion engine and the modern railroad have brought, was wholly absent. In each congested village and city population in India where no one had ever known free competition and free contract, it was easy to seam and divide society by groups which excluded all other

men from the particular vocation which each selected, which guarded their civil right by religious rites, under a primitive faith, which turned in worship to whatever had power, and, as this organization became hereditary, there gradually grew that mingled product of industrial conditions, of ancestral employment, of religious sanction and of social separation which constitutes the Hindu caste. The like appears in our own day. The law under which a commission of anthracite miners decide who shall become an anthracite miner and suspend the operation of examining and certifying to new miners, whenever a strike comes, is the first step to an anthracite miners' caste. The trades unions, familiar in every city, to which it is difficult to secure an election for any but the sons of members, the kin of those in whom they are interested, are another nascent step towards the denial, in the trade which they control of free competition, free contract and personal freedom of the choice of vocation for each man, without any test or bar, except such as the law itself may impose, open to all to prove proficiency by examination.

The régime of free competition, free contract and personal freedom, which is constantly treated in all discussions of this sort as immemorial, is, in fact, the recent product of civil liberty, cheap transportation and the rapid increase of product under the factory system. But for free transportation the factory would not have grown beyond the product of what would satisfy the region which it served. In the Knight sugar cases the government sought to show that the

sugar melted could not be consumed in the territory immediately around the factory, and the court refused to consider such testimony, but, as a matter of fact, except for the railroad the sugar refinery of today, like the refinery of the early part of the eighteenth century when sugar was still a luxury, would be forced to limit itself to a small region and the area around, which could be reached under primitive methods of transportation. Civil rights carried with them free competition, free contract and the personal freedom of choice. The railroad and steamship opened the market, the latter first by sea, the former later on land, and the growth of the factory system brought a new competition before unknown, over an entire continent. This has grown so familiar in an age when the product of a single pottery in Staffordshire may be found on the shop shelves of the civilized world, that it is difficult for us to recollect that in lands still under primitive conditions and in all lands, as the collector well knows and is still the case in China, the methods, the shapes, the patterns, the decoration, the colors and the character of the ceramic wares of a country change wholly with every few miles, so that each region feels little or no stress of competition from another.

As capital developed the factory system and as labor grew in organization, both these factors have sought to limit free competition and free contract. Cheap transportation had created free competition, and the most deadly assault on its development and extension was carried out by rebates on

railroad rates and special contracts on steamship lines, such as the House of Lords approved in the Mogul Steamship case twenty-three years ago, both of which have built up monopolies in trade, restricting competition in this country and in England. By an instinct as unerring as always attends the exercise of an economic appetite for larger profits, the precise cause which had created the reign of free competition was the one first attacked. In the same way as the abolition of guilds, the abrogation of industrial privilege and the opening of all pursuits and all trades to all men had created a general advance for labor, so labor laid its hand first on the old weapon of the guild, in order to create special economic groups which could protect themselves against competition.

Nowhere was the opening of cheap transportation more complete or the abolition of free industrial privilege more sweeping than in the United States, and nowhere else has there been a more complete development of free competition, free contract and personal freedom. To this cause and to this more than any other must be attributed the amazing industrial advance of the United States. This is constantly laid to great resources, but these resources exist everywhere: coal, iron, fertile fields and all the illimitable products of the soil, the waters and the empire under the earth are present in many lands, but it is only here that over an entire continent just courts have enforced the free privilege of contract. Nowhere else has the embodied contract, a corporation, been given wider privileges, nowhere else has the com-

petition created by cheap transportation been more complete, and nowhere else, be it remembered, has the determination to preserve this competition against the encroachments of capital or of labor been more constant, more continuous or more successful.

The weapons lie close at hand. Exactly as the common law through centuries had created a protection for the personal freedom of the citizen, which was at last embodied in the habeas corpus act, an enactment which only put into statutory form what was already the common law of the land, so the common law protection of free contract and free competition, which had been the common law of the land, was embodied in the Sherman anti-trust act. Exactly as the powers which the King's Bench had originally exercised, in order to protect the citizen against the encroachment of the donjon keep and baron and all the special rights which permitted imprisonment, without due process of law, were disregarded by royal judges when the Crown sought to extend arbitrary powers, so the free industrial systems built up by free contract and free competition after they grew great and extended into combinations sought first to encroach upon and then to destroy the very régime by which they had grown both profitable and beneficent. The same freedom of association for all men, which had been thrown wide open when guilds and the special privileges of trade associations were destroyed by statute and far-reaching decisions in England and in this country, was employed by labor

to forge anew the fetters from which the industry, the energy and the efficiency of the individual had been unloosed.

No one has profited more by this freedom than labor itself. It is not only that wages are higher in this country, so that allowing for every difference in price the purchasing power of wages is, as an English department has recently ascertained, nearly one and a half times greater than it is in England, and the share in the results of every industrial enterprise divided between capital and labor is far greater for labor than for capital in this country, as compared with Great Britain. Of the gross earnings of our railroad systems, nearly one-half go to labor in various forms, and considerably less than one-third of the return on capital in dividends and in interest. In England the share given to capital, instead of being one-third that paid out in wages, is actually larger. This same proportion follows through the entire industrial system of Great Britain and the United States in our factories and in our mines; in our retail stores and in all our agencies of distribution the same broad fact appears and the share of every hundred dollars paid out in wages and paid out in the return on capital is relatively far greater in this country for wages than it is on capital. Free competition has done more to accomplish this than any other cause. The capital employed in American railroads, taking as a measure the par value of shares and bonds, reaches \$17,000,000,000 on 223,000 miles, taking 1908 as the year



of comparison. In the United Kingdom the total capital is about \$6,500,000,000. This disparity, roughly expressed by an average capital per mile in the United States of \$75,000 per mile and in England of \$300,000 per mile is, as we are all perfectly well aware, by no means a measure of the relative expenditure of capital on both systems. In England the general practice has been to carry to the capital account all expenditures which added permanent improvements, and, in many cases, new equipment. In the English railroad practice, as in the English practice in municipal enterprises and in manufacturing, no adequate depreciation account is carried. The English railroad system is still vainly endeavoring to pay interest on the cost of engines long since scrapped and rails long since replaced. Were the accounts of a system like the Pennsylvania Railroad to be rewritten upon English lines, its capital expenditure per mile of line would be greatly increased. Free competition in this country has brought a pressure on every enterprise which has made the scrap heap an economic asset of the first magnitude in the development of the country. As far as possible, additions are carried in maintenance accounts, capital is restricted, and much that would be accepted as capital expenditure and a profit jealously sought upon it in England has here gone to the national scrap heap. The pressure of free competition has forced this practice.

In England, on the other side, the railroad system, from the start, has been closely interlinked, because, under the

English railroad system, the capital of the country, very largely centered in a few hands, has constantly labored for the preservation of the capital rather than for the efficiency of the line. When we speak of free competition we are not alone narrowing ourselves to the limited economic outlook, we are remembering also the free social competition which makes all careers open, which does not, as in England, feel that a railroad board of direction commands a greater public confidence because it has on it members of the group of ruling families which has, through generations enjoyed through rank, privilege, and in many cases, inherited ability of a high order, a practical monopoly. There are great families in England, like the Cecils, wise enough to enter early on the railroad system, who have had a weight in railroad management as great as that in affairs and have exerted themselves in both instances for the conservative protection of the profits of capital. The system of which they were a part relieved them from the free competition which pulses like an electric current through the whole American railroad system, in which the new man is perpetually, decade by decade, appearing and revolutionizing all that has gone before, scrapping in his operations, shares, bonds, roadway, equipment, and adding a new increment of efficiency, not only to the lines which he directs and controls, but to the entire transportation of the country. Such a man was Harriman. The free competition of a continent made his career possible.

The practical result and the advantage of free competition might be rested on these two railroad systems alone. Under the widespread habit of all competing for the advantages of competence, due to a universal social competition, the owners of the American railroad system number, as nearly as can be ascertained, 1,000,000, without taking into account the indirect ownership of depositors in savings banks and the holders of life insurance. The total number employed on American railroads, in 1908, aggregated 1,436,275. The number employed on English railroads is about 700,000, half those employed in this country, with the inevitable result of wages so low that over nine-tenths of them receive only one pound per week. The total yearly compensation paid in the United States to all railroad employees was \$1,035,000,000. The amount paid in England in wages was about \$180,000,000 for the same year. While the number of American employees was about twice that in England, the total sum disbursed in wages is between six and seven times as great. The capital embraced in American railroads, earned dividend and interest in all shapes, \$700,000,000. The amount disbursed in England for the same purpose was \$206,000,000. While the ratio between the wages fund in both countries was as six to one, the ratio between the profits of capital was three and one-half to one.

These contrasts could be carried through the whole system of industry, as contrasted between England and America, or any European country and the United States and

through all of them there would be found similar ratios of a larger share given here to wages and lesser share given to capital, and in all fields, as a result of free competition, a higher efficiency of labor and a sharper struggle to maintain the efficiency of capital and to prevent the dead hand of the past from reaching into the profits of the living present. Maintain free competition and this great progress can be preserved through all the future. Maintain the freedom of transportation and equal privileges upon it, and no matter how great the combination may be, it will be true of it, as it has been true of the Steel Trust, the Rubber Trust, the Sugar Trust and the Woolen Trust, that each decade sees them control a smaller fraction of the industry than at the beginning. Break up by the unflinching enforcement of the principles in the "Sherman Act" any combination which seeks to prevent this operation of free competition, and the same process will go on in every industry. Through twenty years, step by step, the judicial power of the people, that great arsenal in which, from the early days, wherein the King's Writ began to run through all his kingdom and override all lesser jurisdiction, the weapons of freedom and free competition were forged, generation by generation, has been here also protecting this great inheritance. The last great decisions on the Standard Oil and the Tobacco Trust are destined to be the charter of free competition to the American people through all their future. The general principle of the common law has been

clear from the beginning, that no power within the state was permitted to have a possibility of interfering with the personal freedom of the subject, and these decisions, consciously and unconsciously applying the early principle which broke into every castle keep and, freed from ancient prejudice, the restraints laid upon personal freedom and trade alike, have laid down the principle that the mere fact that a corporation had the power to interfere with competition was sufficient cause for its dissolution. Time will be needed for this to work out its full force in its full application. Exactly as the reader of English history is familiar with the pages in which special privileges, here and there, like those of the City of London, of the Palatinate and of other lesser jurisdictions survived, interfere here and there, as Blackstone notes from time to time with the uniform and general jurisdiction of the central court of the realm and royal sovereignty, so there will be a penumbral season in which a well-managed trust will divide up into fragments:

Quinquaginta atris immanis hiatibus Hydra  
Saevior intus habet sedem,

which Virgilian line, freely translated, means that the hydra is more dangerous than ever seated within, when divided into fifty dark and formless parts. But the American people, with that instinct alike for self-rule and for empire which has unconsciously guided them through a century and a third, often blundering as to means, but never swerving as

to ends, is determined to maintain the régime of free competition at all hazards, and in the end capital struggles in vain to secure the privileges of the past, and labor, which vainly seeks to impose upon itself the old chains of guild and caste, will be both forced by a sovereign people greater than either, to accept that universal rule of free competition, free contract and personal freedom, on which rests alike the safety of the republic and the prosperity of its citizens.





## XXII

# THE FIELD BEFORE THE COMMISSION ON INDUS- TRIAL RELATIONS <sup>1</sup>

PAUL U. KELLOGG

On the last day of the year 1911 a group of social workers and university men presented to President Taft a petition for the creation of a federal commission of inquiry. They asked for a body "with as great scientific competence, staff, resources and power to compel testimony as the Interstate Commerce Commission" to investigate the field of relations between employer and employee. Among the topics specifically mentioned for investigation were the organization and methods of trade unions and employers' associations, strikes, laws and judicial decisions relative to labor, and constructive "schemes of economic government," such as the "trade legislature" in the New York cloak and suit industry, the Canadian industrial disputes legislation, the Wisconsin industrial commission and the Australian minimum-wage acts.

<sup>1</sup> This article published in *The Political Science Quarterly*, December, 1913, is an unusually comprehensive statement of industrial conditions when the War began in 1914.

Six months' agitation resulted in the passage of an act by Congress approved August 23, 1912, providing for a commission of nine members, three to represent employers and three to represent organized labor. The duration of the commission was limited to three years, and an appropriation of \$100,000 was made for the expenses of the first year. The commission was given broad powers of investigation into general labor conditions, conditions of association of labor and capital, problems of sanitation and safety, agencies of industrial peace, and the subject of Asiatic immigration. It was especially charged to "seek to discover the underlying causes of dissatisfaction in the industrial situation and to report its conclusions thereon." In mid-September, 1913, President Wilson's nominations were confirmed by the senate, and in October the commission met and organized for work.

It is significant that the impulse which resulted in the creation of this commission came from men and women who belong to what may be termed the third party to the industrial struggle. They were men and women, to be sure, who know conditions of life and labor at first hand; and many of them had been instrumental in settling industrial disputes. Yet after all, of what deep concern was it to them that employers and employees are recurrently at loggerheads? What concern is it to the average citizen?

Let us look at the situation as they brought it forward, and carried conviction in Congress that the work ready

to the hand of such a federal commission reaches to the economic bedrock of American democracy.

## I

Throughout the period of westward expansion the homestead laws were the underpinnings by which men adjusted themselves to the land, as the basis for subsistence. On them, and on contractual relations which smacked of the soil, they built up the great commonwealths of the Mississippi Valley and beyond.

With the development of manufacturing, the currents have set in new directions; cities have piled up; the people have massed in great trade groups; employments embedded in corporate industry have become the basis for subsistence for vaster and vaster numbers of Americans. On the contract of hire depends their prosperity.

Now, the laws and customs of adjusting rights and interests among agricultural peoples have been the development of centuries. They have become moulded in forms conformable to democracy. But while organic social changes have come in with modern industry, as radical as the change in tools from wheelbarrows to electric cranes, the terms of the contract of hire have not been reconsidered in relation to the new conditions.

If we apply to the farming life of America the words equity, tenure and security, we obtain a fairly clear idea of the economic base upon which households and granges, coun-

ties and states, have been built up. But if we apply the test of the same words to the working life of American industrial districts, we get at once a vivid impression of the insecure footing of our wage-earners. And if we turn to the message which Abraham Lincoln sent to Congress fifty years ago and read what he then said of the self-sufficient household and the self-employing man as the sure foundations upon which political democracy must depend to withstand the encroachments of new forms of despotism, we appreciate the risks to our institutions which industrial changes have thrust into the national life.

Not merely the sudden massing of industrial workers but the unevenness in the size and strength of the parties to the work contract puts strains upon it. Corporate bargainers range from small concerns, which retain much of the old personal contact between master and man, to far-flung enterprises governed by wire, which have injected a system of absentee capitalism into American industrial life as definite in its effects as is absentee landlordism. In strength of position these corporate bargainers range from the isolated contractor, whose work must be prosecuted on an exposed corner and at a rate of speed enforced by real-estate owner and prospective tenant, to the manufacturer whose walled plant enables him to store up finished goods to tide over a strike. They range from associations of such manufacturers, which can put a strike-breaking force into the plant of any member and break the back of a local strike regardless

of its merits, to nationalized industries, which can effect the same end by closing down a plant here and operating elsewhere. They range from manufacturers, who view organized labor as nothing more than a disrupter of orderly administration to be fought at every turn, to manufacturers who not only bargain with it, but look to it to aid in the discipline of unsteady workers or to settle disputes between crafts.

There is equal unevenness in the ranks of labor. The workers range from those in sedentary trades, thick with traditions, to those in new and hazardous callings like that of the structural iron workers, which attract foot-loose men of the same devil-may-care stamp as did our frontier settlements. They range from old employees, indispensable core of an industry, to the machine hands of the loft districts of the cities, whose employers take them on and lay them off with no more sense of responsibility than they feel when they throw the switch that turns on their electric power. They range from mass organizations which embrace every workers in an industry — from common labor up, to craft organizations hedged in by apprenticeships from competition with the common laborers; from elemental, unorganized bodies of men who strike spontaneously under some common spur, as at McKees Rocks and Lawrence, to highly disciplined orders, like the railroad brotherhoods, whose stages of development have been as distinct in character, ideals and methods as are those of thoroughly organized business con-



cerns. The organizations of workers range from isolated local bodies to international unions with staffs of paid organizers; from irresponsible associations with unitemized accounts and a ring control which matches that of machine politics, to organizations on a business basis with large benefit funds and responsible executives.

Leaving out of consideration what have been called the predatory industrial corporation and the predatory trade union, we have, therefore, a great diversity in the relative strength of position enjoyed by the two parties to the labor contract. In the middle ground, for the purposes of illustration, may be cited the brewery trade, in which strong unions, local and international, have carried on long-headed negotiations with an equally strong organization of employers to devise trade agreements covering not only the customary subject-matters of hours, wages and labor conditions, but the creation and joint management of a fund for old-age pensions, accident and sickness insurance. At one extreme of the scale is the Chicago builder who has to deal with thirty different city trades and who may be bankrupted because his operations are held up by disputes which the unions may have among themselves. At the other extreme, the Steel Corporation, with a half-billion capitalization and with men numbered in the hundreds of thousands, refuses to bargain with even two men acting in unison.

The presence of such inequalities between the two parties to the labor contract is sufficient to require that the commis-

sion give fresh scrutiny to that contract to see if it is meeting the stress of demands which it was not devised to bear. Clearly, also, the commission should consider how the sovereign power of the state, greater than that of any of these parties, may be thrown over the transaction so that sheer disparity in strength between the contracting parties shall not of itself occasion social wrong.

In the absence of such governmental control, the parties to the labor contract have themselves sought to exercise control over it either by mutual agreement or by compulsion from one end of the bargain or the other. Thus we have:

The closed shop — closed from below — in which unions succeed in preventing the employment of any but their own members in a given trade.

The preferential shop, in which the employers agree to give a preference to union labor when engaging new workers.

The open-shop, in which union and non-union men are on an equal footing and in which employees are treated with singly or in groups, as they prefer.

The pseudo-open shop, in which the labor organization is dislodged or rendered feckless by a process of discharge or refusal to treat with the men collectively.

The closed shop — closed from above — in which the employer discharges men who attempt to act collectively or even to belong to unions, and in which the workers do not so much bargain as simply take or reject what is offered.

Two recent developments should be added. The tactics of the I. W. W. may be regarded as evolved out of the very weaknesses of the workers in the last named position. The appeal of this organization is to the ranks of common labor, the glutted, the replaceable. It meets the flat refusal of the employers to bargain with such men by denouncing all contracts with employers. And where, against the all but impossible odds of police repression and economic necessity faced by such workers, they fail to win, the I. W. W. counsels reprisal, after return to work, by a sabotage more to be feared than the strike itself. But in its larger strategy the I. W. W. preaches an industry wide open at the bottom, an industry organized as a whole, an industry working out its common salvation.

The protocol plan in the garment trades in New York, apparently at the far extreme of the scale from the tactics of the I. W. W., claims the same strategy for its own. The one is avowedly on a war footing; the other stands for organized peace. Under the protocols, now in vogue in several trades, we have the beginnings of economic self-government within each industrial group: grievance boards, through which in one trade representatives of 1,200 employers and 70,000 employees adjust the trouble in a particular shop; sanitary boards, which deal with questions of hygiene, lighting, ventilation and fire escapes more rigorously than does the state department of labor, and call a strike if necessary

to enforce their decrees; standard wage boards which are beginning the scientific study of rate-making.

If the commission will make a comparative study of the situation of working men and women in industries which afford examples of each of these various forms of control, it will break new ground. The same is true of a study of the effect of the change from one form of control to another in the same industry. How far are most trade unions open at the bottom to young men and to new-comers? "Suppose the working man has no union to speak for him," asks Professor Ross, "what are the forces that will insure a market value for his labor?" How well does he fare in the matter of fines, dockages, bonuses, held-back wages and the other things which so materially affect any comparison of earnings? We have never had a comprehensive study of the lessons to be learned from our great strikes. We could profit from a much deeper sifting of the experiences in industrial adjustments under the Erdman Act and the conciliation boards in the coal fields. Still more fragmentary is our knowledge of how in actual practice the vast number of individual bargains are struck between those who offer labor and those who offer pay, bargains whose terms and conditions bring to the workers a consciousness of fair play or else add to their growing sense of injustice.

For in addition to this disparity in strength between the parties to the work contract, account must be taken of the

continual and disturbing changes in the nature of the work contracted for, the necessity for making newer and ever newer bargains. Sometimes these affect a large class of labor all at once; more often, some few operations in the midst of intricate processes. The explanation, of course, lies in the fact that, in addition to the sheer transfer of hundreds of thousands of people from agriculture to industry, industry itself has been overturned from top to bottom by the subdivision of labor, by the introduction of power, by the use of chemicals, by the increase of speeds and the changes in machinery and in method. The measure of output which was the subject of yesterday's bargain, like the tools with which the work was performed, is obsolete today. Too often have the workers seen the gains from industrial improvements slip through their fingers or bring them loss, by replacing a skilled mechanic with a semi-skilled machine-tender. Where increased output has led only to rate-cutting, this has in turn given rise to restriction of output and to opposition to machine production. Grievance on the one hand has thus bred grievance on the other.

Is it too much, therefore, to look to this commission to discover and define the public element in rate-making? Would not something be gained if it considered how far the miners' program of public and accurate tally of output can be given general application? Has not the Massachusetts Minimum Wage Commission, in proposing to publish the wages paid by employers who fail to meet its minimums,

struck an important principle of wage publicity? Is there no way by which the assurance of a net gain to the workers may be a recognized factor in making wage adjustments following an improvement in method, so that with every mechanical advance the general level of wages will be lifted a bit instead of lowered? Would not industrial progress itself respond to such a social policy toward invention?

Closely related to machine production is another element which affects the foothold of American workmen in the corporate industries, *viz.*, the vast influx of immigrant wage-earners. More important than the fact that upon their arrival a third of these immigrants are illiterate, is the fact that before coming to this country nearly a fifth have never worked for wages. The immigration restrictionists are right in saying that the mass and insecurity of the immigrants act as a powerful undertow on the lower bargaining levels of all industries. The Federal Immigration Commission indicated that the average pay of day labor the country over is less than the sum required for family subsistence, and that the influx of newcomers tends to keep it there for immigrant and native workman alike.

The engineer and the physician are beginning to limit the lawyer's conception of the freedom of contract which permits the foreigner to be placed at a dangerous machine which he does not understand, or which allows him to handle industrial poisons without knowledge of their evil. We know that scores of rough peasant lads have been crippled



by lead poisoning in American industries. The new commission may well consider the question whether the control which society might exercise in such cases over "greeners" who are industrially immature, should not be extended to include immigrant laborers in whatever industries their presence threatens—not only the bodily well-being of particular men but the social and economic well-being of great trade groups.

This change in tools and processes which has displaced old crafts has resulted in the destruction of much of the older social fabric upon which we have depended both for resolute self dependence in politics and for conservative leadership in the general affairs of life. The English-speaking miners of western Pennsylvania built up churches, lodges, unions and community life. Within the last thirty years, as pointed out by the Federal Immigration Commission, there has been an exodus of these pick miners from certain counties to the Southwest; and immigrants and machine saws have taken their places. With this lapsing of our customary social institutions in such regions, it becomes all the more important that the fabric of just relations in industry be stable, so that whatever befalls the community life, fair dealing and security in the industrial field will give all comers their first fundamental impression of the things for which America stands.

On the other hand, industrial operations, as in the mines, in logging, in construction camps and even in the new in-

dustrial towns, carry forces of workers into unpopulated areas where civil society has not yet taken root or is still insecure. In these twilight zones of democratic life, injustice flourishes. Fragmentary information which reached the public from the coal fields of West Virginia and Colorado, the copper country of Northern Michigan and the timber lands of Louisiana has been such as to give grave concern as to hard-won rights subverted, and lawlessness breeding lawlessness. The New York Immigration Department has found grave evils in construction camps all over the state. This department may have suggestive experience to offer the commission as to how to project the forces of industrial law and order, so as to be available promptly and naturally to isolated men in these hinterlands of life and work.

In the cities themselves, life has become so complex and congested that the fixing of the terms of employment is often wrested from the hands of employers and employees by forces over which they individually have no control. For example, it is common practice for the laundries of the United States to require their ironers to work half through the night on Fridays, a practice which means broken health and broken virtue for hundreds of women yearly. But we realize that here is something which hinges on more than the moral decision of any individual laundry owner; that if he refuses to operate his plant on Friday nights to meet the demands of his patrons for clean linen for Sundays, he will lose their custom and so be forcibly retired from business.

Therefore it is that legislation is advocated that will prohibit night work for all women in laundries, and so put all plants on an equal footing and make the man with the bundle of dirty linen pay in punctuality what is too often paid for out of wasted lives. The situation in these laundries shows that the labor contract cannot justly be wrenched from the social growths of which it is a part and settled without relation to its human context.

## II

To the recognition of this impotence of the lone employer, and to a growing appreciation of the weakness of the position of wage-earning women and children in bargaining for their labor, are due the beginnings of new statute law in the various states, limiting the right of contract. It was a law prohibiting the overwork of women, protested by an Oregon laundry owner, that afforded to the Supreme Court of the United States the opportunity for perhaps its most sweeping decision as to the authority of the state, under its police power, to restrict the freedom of the individual or to fix the terms of his employment. We have laws in different commonwealths reducing the working day of women and prohibiting the work of children who in size, education or age are under a certain standard. In mining and in caisson work we have the beginnings of similar legislation applying to men. How far such statute law may be used to the advantage of labor we do not yet know.

Our new industrial commission could at least examine the extent to which the labor contract is already limited in the different states, and compare our laws with those of other countries which have proved salutary. It could consider the constitutional principles on which these limitations in our statutes have been successfully based and could review their applicability to federal legislation, or urge such uniformity in state laws that the progressive commonwealth shall not, as now, be penalized for the humanitarian legislation which puts it ahead of the laggard states.

To turn from statutes limiting freedom of contract to statutes changing the common law of tort liability, it should be noted that state after state has during the past five years wiped out the old defenses open to employers in damage suits — assumption of risk, contributory negligence and the fellow-servant doctrine. These were so many unwritten undertakings of the contract of hire which for three-quarters of a century the courts assumed the workman assumed when he took a job. The very title “master and servant” harks back to an earlier day, a day of domestic rather than of factory production.

There may well be other ancient obligations in the conception of the work contract which like these need readjustment to fit new times. There may be recent modifications which likewise need scrutiny before they become fixed and hard. Within the last few years a score of great industrial corporations have instituted elaborate systems of profit-

sharing and bonus-paying, service pensions, sickness benefits, and accident relief. The National Electric Light Association has been the pioneer in developing a comprehensive social program covering all these points, and savings funds in addition. A generous progress is here at work. But it should be noted that all these provisions are a part of the bargain between employer and employee. Some of them, like the payment of a bonus, if it is made dependent upon good behavior and even then held back for a period of probation, are clearly devised to bind the employee to his employer and to prevent strikes. It would require no stretching of the field of the new federal commission to make it cover not only a consideration of such modifications of the labor bargain, but an investigation of the systematic schemes of social insurance which have been adopted in Europe and have there attained the chief ends sought by the systems inaugurated by some employers in this country, without subjecting the employees to disadvantage. In the adoption of such more systematic plans, this country lags far behind Europe.

Old principles of the common law and constitutional rights are called into play with respect not only to the labor contract but to the act of bargaining.

In periods of industrial conflict we find on the part of both employers and employees a vigorous assertion of those principles and rights which most nearly serve them. Unions point out the alacrity with which police and military

forces are rushed to the defense of property, compared with their slowness of motion where human rights are concerned. Employers view with distrust the failure of unions to incorporate so that they can be brought more readily before the courts. Unions denounce injunctions which would stay their hands when delay would mean for them a lost strike. Employers attack picketing as an interference with their business and in some industrial districts have been able to make it unlawful. Unions stand out for the right to bargain collectively, while they less vehemently assert the rights of a workman who, perhaps because of the personal grudge of a union official, is denied membership in the union and hence the opportunity to earn a livelihood. Employers, when they preach loudest as to the right to work, may mean not the rights of resident workmen, but the right of an immigrant to sell his work for a pittance, unconscious of the effect upon American standards; or they may mean the right of a strike-breaker to work at a wage temporarily high and thus to destroy the possibility of a fair test as to whether *bona fide* workmen will accept the terms to which the strikers object. And this bristling championship of the rights of workmen on the part of employers too often, as at Little Falls and Paterson, ignores the right of free meeting, without pain of discharge or police interference, or the right to domicile, as at Westmoreland, where a petty magistrate enjoined a priest from visiting men of his own communion in the company houses.



To this right to work, the commission should give fresh scrutiny. They should define it anew on the basis of modern conditions, and then call for its defense with the force of government. But there are other elements in the contractual relations between employer and employee which, as we have seen, need similar scrutiny. It is poor statesmanship to apply the strength of the government merely at such points in a desperately subnormal industrial situation as will tend only to perpetuate it. Petty magistrates and police, state militia and the courts — all these were brought to bear by the great commonwealth of Massachusetts, once the Lawrence strikers threatened the public peace. But what had the great commonwealth of Massachusetts done theretofore to protect the people of Lawrence against the insidious canker of subnormal wages which was blighting family life? Such policies of applying public strength may be so inept and incomplete as to amount to public impotence.

There has ever been a political significance to the finely adjusted laws of property rights which have been developed by Anglo-Saxon civilization. They have served to make the small man — farmer or tanner or weaver as he might be — secure in his property-holding against the encroachment of over-lord or king. Under the changes ushered in by industry, a new race of over-lords has risen up, holding fief in the economic life. The means of production have been transferred from small to powerful hands; the industrial corporation rather than the homesteader becomes the type

of property owner. Should not the commission gauge how far these laws of property have been turned to purposes the reverse of those for which they were intended; and how new balances may be struck?

As Professor Henry R. Seager, former president of the American Association for Labor Legislation, has pointed out, when wage earners see in the injunction process a legal remedy which may be used effectively by one side in an industrial dispute and not by the other; when the courts tell them that they may strike to better conditions, but that if they strike to strengthen the union as a means to secure those better conditions they are guilty of conspiracy; when a court's view of the boycott seems to them to involve a denial of their liberty to patronize whom they choose, and leads to jail sentences for conservative leaders like John Mitchell; when the Standard Oil Company escapes with an order to dissolve to its own profit, while the United Hatters are fined \$240,000 under the Anti-trust Act; then wage earners are strengthened in the belief that for whatever purpose a law may be framed, the courts will be certain to turn it against them rather than against their employers. When, in the midst of a strike, pre-revolutionary riot acts and statutes of Edward III are summoned from their obscurity, that belief is not weakened.

The new commission could do few things more clarifying than to reëxamine the whole trend of judicial decision relating to labor disputes, and to come forward with con-

structive recommendations. Many of the most one-sided decisions, one way or another, are embedded in the records of the minor courts, and only such a resourceful inquiry could get them out into the open. Such an authoritative presentation could not fail of itself to lift the levels of such court proceedings in the future.

### III

We have thus reviewed rapidly some of the social bearings of the work contract to which we, singly, in groups, and as a whole, are parties: the inequalities in the organizations which participate, the injection of women and children and immigrants into the situation to complicate the bargains of men, the revolutions in manufacturing methods which make the work bargain an ever-recurring fact, the technical development which makes it difficult, the social pressure which distorts or moulds it, the laws which apply to it with uncertainty. As Professor Hoxie puts it: "It will not do to attribute the resulting conditions and actions to ignorance, selfishness or perversity on the part of employers or workers. They but act as the inherent forces of the modern industrial system dictate." The situation is one at best filled with organic change, adjustment and readjustment. It would put to the test the most firmly woven and clearly defined fabric of industrial relations. But as a matter of fact our industrial relations are not firmly woven nor clearly defined. The economic motive has been the only

element, sure, certain, omnipresent. Under pressure from it, as a natural consequence, men have taken things into their own hands; singly and in groups they have applied remedies which at worst gouged their fellows and at best have been but a partial solution. Encroachment from one quarter has been answered by encroachment from another. The leadership which has been the subject of most serious public criticism has been of the sort which has forged to the front among men on a war footing from the beginning of time. The excesses on both sides have been of the sort which are inevitable when the fabric of fair play is not strong enough nor well enough devised to stand the tension.

Viewed from the angle of the breakdown of government in the field of industrial relations, the actions of manufacturers in extending their spheres of control become not the ruthless deeds of a new breed of pirates, but the understandable efforts of men charged with the difficult task of production. Out of the invertebrate life about them they must muster all sorts and conditions of men into the team play of industry and must set them to work so that the end of each day heads up into accomplishment, must adjust them to great tools and mighty natural forces in the never-ending strategy of producing utility out of energy and raw material.

But progressive employers have failed in this: in imposing voluntary standards upon their fellows which would

prevent human exploitation in any and every quarter. If the function of setting rules to the game is therefore taken over much more fully than in the past by the more powerful hands of the state, we may believe that the resulting stability and good-will would release for industrial executives forces of coöperation and creativeness among their men which are now battened down by private discipline and restraint.

Viewed from this same angle of the breakdown of government in the field of industrial relations, the program of organized labor becomes, in the large, not a ruthless act of aggrandizement, but the struggle of men to bring about order and security for themselves and their kind; and this struggle merges in the slow upward march of democracy. For the homesteader the sale of a peck of potatoes or of a cord of wood is but an act of trade. His acres stand intact, however the bargain goes. But on the work contract in the industrial world hinge the intimate facts of family life and well-being, the income, the leisure, the maintenance of children, the hope of safe old age, the economic strength of a self-governing people — not only all these things as they are, but the chance for what is to come. And he who views the economic well-being of the rank and file of the working people of America and regards it as sufficient and finished, is out of joint with that spirit of initiative and enterprise which asserted itself individually on the border of western settlement and which in our century is asserting

itself collectively in industry. We need to overhaul the fabric of our industrial relations so that they will stand the tension and will not snap before this upward movement of the workers.

The public is directly concerned when an express or street railway strike blocks the currents of traffic, or a garbage or ice strike threatens the health of a city, or when, as in the Westmoreland strike of a year's duration, the whole scheme of life of a small community is jeopardized. During such strikes we hear a great deal about the great third party that has interests at stake — that the public must not be made to suffer. But may we not look to the Federal Commission on Industrial Relations to proclaim the public's duty as well as its rights, the duty to put its own house in order, to set about a better coördination and coöperation of all state and federal agencies dealing with labor conditions, to overhaul the machinery for negotiation and legal adjustment, and to get at the causes which bring employer and employee to the clash and provoke aggression from either hand. For enough has been said to show that the public's problem is not merely that of an outraged umpire in a struggle between two contending forces in our economic life. It goes deeper. For larger and larger groups of Americans it is becoming the problem of their relations as a free, self-governing people to the industrial corporations in and through which they obtain their livelihood. In one of the



pamphlets issued by the committee which secured the creation of the commission, it was said:

We have not as yet squarely faced this mighty shifting in the economic foothold of the democracy. They [industrial corporations] are becoming the permanent basis on which much family life and citizenship depend. This is truer today than it was ten years ago, truer ten years ago than it was twenty, truer in number of people so engaged, and in the size of these industrial units. It will be truer ten years from now than it is today.

Writing as chairman of the committee, Mr. Devine said:

A "durable" question, is the expressive phrase in which Lincoln summed up the issue of slavery. This being interpreted means that it was a "struggle which was not to be settled in a day but must be stayed by and followed from phase to phase." The industrial warfare similarly presents to us a "durable" question. That is not by any means the same thing as an endless or insoluble problem. The physical conquest of the American continent was a "durable" struggle, but its geographical phase is ended in our own generation. The abolition of poverty requires a "durable" struggle, but it is within sight of sober and responsible statesmanship. The "durable struggle" as to whether this nation was "to ultimately become all slave or all free" reached its "final and rightful result" within less than ten years after Lincoln's defeat by Douglas which called forth the defeated candidate's clear formulation of the issue.

It took the stress of civil war, four score and more years after the nation was brought forth, to remove the flaw which the founders of the Republic had allowed to mar the rela-

tions between land and labor. With that war the United States, hitherto an agricultural country, entered upon its period of industrial development.

Fifty years later a group of forward-looking men and women challenged American statesmanship to give sober consideration to the relations between corporate industry and labor, not necessarily in the belief that any such deep-seated flaw as human slavery exists, or that war is necessary to remove it, but with the profound conviction that the revolutionary economic changes of the half-century have put new and unusual strains upon the personal rights and governmental forms which have been handed down from earlier times, and that it is the especial task of our generation to develop an industrial procedure that will readily and naturally lead to justice and fair dealing in the same way that earlier centuries saw the slow evolution of a civil society conceived in liberty.

The Commission on Industrial Relations is a response to that challenge. Upon it Congress has laid the responsibility for such a public and resourceful scrutiny of all the facts, that before we enter upon any partial or fragmentary solutions, the situation may be seen as a whole and understood of all men.



## XXIII

# THE MIDDLEMAN

ALBERT W. ATWOOD

Twenty-two different delivery wagons from as many different grocery stores stood in front of a large New York City apartment house one day. George W. Perkins, whose prominent part in the formation and direction of several of our great industrial combinations is well known, heard of these twenty-two wagons and remembered the incident. The next time he spoke on the subject of combinations and trusts, which was before the Senate Committee on Interstate Commerce, he drove home his argument with that very illustration of the economic waste involved in many of the present methods of bridging the gap between producer and consumer.

The question of the high cost of living has been discussed until it has become tiresome, but the subject is one which must remain engrossing until it is solved. While the fact is ascribed to many causes, the man on the street points most insistently to the trust and the middleman. Let us lay aside trusts for the present and examine the Middleman.

Even the most superficial observation at once reveals an

astonishing discrepancy between what the producer receives for his products and what the ultimate consumer pays for them. Many figures on this subject are haphazard, it is true, but there are enough reliable data to establish beyond a doubt the fact that present facilities for bridging the gap between producer and consumer are an expensive makeshift, without orderly plan or system. Grapes which sell for forty cents a basket in the city have been known to return the grower but seven cents. A ten-cent bottle of milk in New York returns the dairyman about three cents. The difference between what the wholesaler pays for creamery butter and what you and I pay is  $17\frac{1}{4}$  per cent., on cheese it is 27 per cent., on eggs  $56\frac{1}{2}$  per cent., and on poultry 25 per cent. On food products as a whole, in New York City and other large cities in the Empire State, the producer is receiving only about 40 per cent. of the retail price. "That is absurd," says the New York State Food Investigating Commission; "he should receive from 60 to 70 per cent."

Not long ago when sentencing several dealers in live poultry to jail for combining in restraint of trade, the judge said: "Between the farm and the kitchen a chicken has six separate profits fastened on it. Six separate profits must be paid when a chicken is bought over the retailers' counter. Is it any wonder that the poor are getting poorer?"

Fresh, abundant, and cheap food can only be had by en-

couraging production. The present excessive cost for transportation, storage, selling, and delivery, that is, for all the various processes of distribution which the so-called Middleman performs, simply discourages the producer. Under present conditions the near-by sources of food supplies for many of the great cities are dormant or drying up. New York gets its fresh vegetables from the most distant points; Buffalo is fed very largely from the West; Albany does not receive one-quarter of her butter, eggs, chicken, or veal from the excellent farm lands around that city. The final absurdity is reached when far better apples than those which cost five cents each at the fruit stand, rot on the ground within a hundred miles of a great city, as the writer has seen them do.

Clearly there is a tremendous amount of waste in this whole process. New York City's annual food supply, which costs \$350,000,000 at the terminals, rises to \$500,000,000 when the consumer gets it. Each inhabitant of the city pays his share of this \$150,000,000. Either the profits are excessive or else the flow of food supplies from producer to consumer is hindered and stopped by inexpressibly poor facilities. Is the Middleman fattening upon the consumer? Should every wholesaler, jobber, dealer, commission man and retailer go to jail?

What light, for example, do certain recent doings of a picturesque and spectacular, if not almost hysterical nature, throw upon the subject? A clergyman in one city and a



mayor in another attracted an astonishing amount of attention some months ago by opening markets and selling food products at less than the retail store prices. Mayor Shank, of Indianapolis, and the Rev. Madison C. Peters, of New York, both declare that the middleman, that is, the retailer, as much as any of the other agencies engaged in the distribution of food products, is the party responsible for high prices. Mayor Shank sold fruit, vegetables, and poultry at far lower prices than the scale prevailing elsewhere in his city. The reverend gentleman in New York sold potatoes at several cents a pound below prevailing prices.

These extra-vocational activities of mayor and clergyman, petty as they were, are nevertheless incidents in a mighty train of events connected with the protest against high living costs. Not long afterward, a Housewives' League in New York City undertook to show women how to buy food cheaply. Then there were meat boycotts and riots in many cities. Coöperative stores have been started in suburbs of New York City. Markets are being formed for the despised push-cart peddlers. The organization of large municipal markets has been urged. "More terminal markets!" is one cry, and it is pointed out that because of poor handling and defective arrangements for the reception and distribution of food there is an unnecessary damage each year of \$75,000,000 to eggs and poultry.

Railroads and steamship lines are being blamed for af-

fording inadequate terminal facilities as compared with those of such model cities as Hamburg. The express companies come in for their share of censure, and the Parcel Post is expected to lower living costs. Fruit growers of the Northwest have formed selling agencies to wipe out the Middleman. In Pittsburgh, Buffalo, Cleveland, and Chicago federated marketing clubs of consumers have been organized. Consumers' coöperative buying societies are springing up everywhere, in the army and navy, and among postal clerks. Village improvement societies are studying the question. Then there are those who think the lack of roads in the country districts is mainly responsible. There are a thousand and one explanations and proffered remedies. The air is surcharged with bitterness against the Middleman. The one fact which men have firmly fixed in their minds is this: *Of the sum which consumers of this country pay for agricultural products less than one-half goes to the farmer.*

But what does this bewildering medley of fact and fancy, protests hysterical and protests well considered, passing incident and significant tendency, all go to prove, if it proves anything? Does it prove that the Middleman is fattening upon the consumer? Look about you. Are the little grocers and butchers growing rich? There are 11,000 grocers in New York City and the State Food Investigating Commission says that high operating costs make their elimination inevitable. "He is now slowly wearing out."

Of the  $33\frac{1}{3}$  per cent. which this class of stores adds to the wholesale price, less than 5 per cent. is profit. Referring even to wholesalers and jobbers, the report of the commission declares that no class is making an undue profit, whereas the smaller dealers are "merely making wages."

What, then, do these attempts to solve the problem of high living costs prove? Well, they prove there are indispensable functions which some one must perform. They prove that distribution is costly, no matter how you arrange it. They prove that as civilization grows more complex the cost of getting an article to the consumer in the shape he wants it is proportionately greater than the cost of the article itself. *It is possible by some artificial or mechanical change of plan to do away with the shipper, the commission merchant, the jobber and the retailer, but it is impossible to do away with the services they perform.* We can eliminate the Middleman, but it has been well said that if we do so there will be sore hands, aching backs, and tired heads after he is gone.

Let us return for a moment to the activities of Mayor Shank and the Rev. Mr. Peters, but let us not jump at conclusions. These men had free advertising, free rent, and abnormal "good-will" to begin with. They had practically no clerk hire, extended no credit, delivered no goods, cashed no checks for customers, accumulated no bad debts, and paid no taxes or insurance. A prominent jurist of New York City complained recently that he paid \$1.80 for a

basket of potatoes. But the learned judge neglected to tell his interviewer that his residence is on Fifth Avenue, and that any grocery store, to be near that thoroughfare, must pay an enormous rent, which can only be gotten back by charging the consumer proportionately large prices.

Let us be quite honest about this matter. The retailer not only has to pay high rents to be near your home, but he has to light, heat, and man his store from daylight to late at night so that you can go to him at any time of day that may please your fancy. He maintains expensive teams, or else pays wages to delivery boys, and buys carts. He sends solicitors to your door to learn what groceries you wish for the day. He will deliver to you a five-cent package of matches at any time of day. He sends you your articles carefully done up in nice packages and carefully wrapped. It is a costly process.

The delivery charge for the average grocery, or corner store, averages nearly one-half the total expenses for the establishment and adds from 10 to 15 per cent. to the cost to the consumer. The fancy packages add from 50 to 100 per cent. to the cost of the goods, and the public seems unable to withstand the bombardment of advertising by the large firms dealing in package goods. Then, again, the telephone has greatly increased the expense of doing business, while it has often lowered the quality of goods received by the housekeeper. With telephone at her elbow she does not take the trouble to prepare a list of her needs in advance,

give one order and have it sent up with a minimum of expense in delivery, but sends in three or four separate orders a day.

There are few if any facilities for storage of food in the modern city apartment, so that the meals are of the hand-to-mouth variety, and this tendency is further emphasized by the increasing number of women who go out to work, and who, upon their return, find it necessary to prepare hasty meals. Their purchases, especially of meats, are of the chop and steak variety, which can be quickly cooked, and there is a decline in the use of the cheaper but equally nutritious stew meats.

For all these comforts, conveniences, and luxuries, performed as they are by the Middleman, the consumer must pay. "It is about time for him to stop playing the part of a man with a grievance," says Mr. Holmes of the Department of Agriculture. "Nearly all the grievances that can be corrected at all can be corrected by himself. He can buy with greater economy through co-operative efforts, and by paying cash, and also with greater economy in forms, preparations, and varieties of things." If consumers are willing to go to market instead of expecting the market to come to them, if they are willing to carry the purchases home, and even wrap and tie the bundles themselves, then they may fairly claim the profit which now goes to the Middleman.

Let the women buy as their mothers used to do. Let them send their own crock to the grocer's for lard, and bring

back for 65 cents what will cost them \$1 in a can which they will throw away, or ruin in the opening. Let them buy their crackers from a box by weight and they will get sixty to the pound, instead of about forty in a pretty package for the same money. Instead of buying package oats at the rate of one-half cent per ounce, let them buy in bulk and get 10 cents' worth for 7 cents. Instead of buying sliced bacon in a glass jar, let them buy a "side" and cut it as wanted at half price.

But will women buy as their mothers did in these days when their interests have become so much greater and more diversified? Have they the time? As for fancy packages, probably they are more sanitary than the old barrel. Milk in bottles is more expensive than in the old tin can, but who wishes to return to the dirty can? *The waste of many delivery wagons, expensive locations, and extension of credit are the natural results of competition!* Ordering by telephone and by means of servants are merely time-saving devices, and, while they cost a great deal of money, this is a time-saving age.

The consumer demands far more than formerly, and the Middleman is supplying the want. Greater demands mean greater cost which the consumer must pay. But why, you may ask, cannot the producer himself perform some of these middle functions? Why can he not reach the consumer directly? In many cases this is possible, but there is no sweeping panacea in that direction.



An acquaintance of the writer's has a dairy farm near Washington, D. C. He would be glad to sell directly to the consumer, and if he could do so without increase of expense he could probably afford to sell the richest of milk and cream to consumers at lower prices than they now pay for an inferior product. But there is no way by which the dairy farmer can have his empty receptacles returned if he sells direct to the householder. Then in order to get trade of a desirable class he would have to advertise extensively, have a distinctive mark for his product, and put the milk into expensive bottles. This is too much for a single farmer to do. He prefers to sell to middlemen even though he knows the consumer pays as much again for the milk.

My acquaintance already spends much money in producing milk, without entering upon the still larger expenditures necessary to reach the consumer directly. The health authorities of the District of Columbia have adopted new and strict regulations. They require from each dairy a veritable bill of particulars. There are regulations as to whether the cows shall be on wood floors or cement floors. Frequent examinations and reports are the rule. This all takes more capital, even though it raises the standard of the product. My friend, in order to be abreast of the best methods of dairy farming, has actually taken away from the Department of Agriculture the best expert to be had, a graduate of an important agricultural college. This man was obtainable only by paying a large salary, the expense of

which must be spread over many quarts of milk and pounds of butter. All this makes for cleaner, better milk and butter, but it makes their cost so much the more.

But suppose our dairy friend were in close co-operation with a hundred other dairymen, or suppose his business were a hundred times as great as it is, and his capital in proportion. Would he not then be able to reach the consumer more directly and with an appreciable saving in costs? Undoubtedly, as has been shown many times. Experts who have investigated food conditions in New York City declare that if there were 200 great food stores for the entire city, instead of 20,000 small stores as at present, there could be effected a saving in retail prices of \$60,000,000 a year. Perhaps the consumer would not get all the saving, but the possibility is there. The books of a few of the big department foods stores show that their cost of operation is about half that of the small retailer.

Mr. Perkins was right when he pointed to the wastefulness of twenty-two grocery stores catering to one apartment house. Those who have purchased in small shops and in great department stores need no argument to prove the economy of large-scale business. Of course the mere fact that a corporation is large does not prove it efficient. We are learning daily that mere size does not mean efficiency. It may merely indicate the possession of special privileges or the employment of predatory and piratical methods. But up to a certain point there is efficiency and saving in doing

things on a large scale, a fact which the investigations of experts and daily, common knowledge and experience, as well as the theories of economists, prove beyond question. A distinguished economist recently enumerated thirteen distinct economies which might follow combination and concentration.

To many men, however, these economies mean nothing. Their belief in the blessings of competition is so fixed that it cannot be dislodged. They lose the substance in grasping for the shadow. They think that two telephone companies or two gas companies covering the same field are better than one. They refuse to see that almost invariably the public is inconvenienced by poor service and that it pays the excessive cost of construction, operation and upkeep. Generally it does not pay profits, for there are seldom any. They do not see the waste involved in a half-dozen concerns all attempting to cover the same territory and offering the same service. Gradually, however, the consumer is beginning to see that he pays for all this duplication and that a great part of his trouble arises from this fact. *Whenever two salesmen are paid for doing an amount of work one could easily do, when two delivery wagons or teams are kept where one would be sufficient, the consumer pays.*

Why then should not we, the consumers, urge with every means in our power the formation of combinations, co-operative arrangements, and agreements? But do you realize that the moment men begin to make agreements they must

employ a lawyer to see that they do not violate the Sherman Anti-Trust Law? It is all very well, for example, to point to the citrus-fruit growers who by agreement and co-operation among themselves have wonderfully improved the handling of their product in the great cities. No doubt they are within the law, but there are hundreds of associations and agreements not so widely different in their purposes, the members of which do not know whether they are within or without the law.

The average citizen has no idea to how great an extent mere associations or agreements in contradistinction to formal trusts have been held responsible for the high cost of living. In 1911 there were forty-four cases either decided or pending under the Sherman Law, all of which had to do with alleged efforts to control the prices of commodities. No less than 107 suits have been brought under this law, and the great majority have been directed at mere trade agreements, associations, and pools of business men.

The range of these prosecutions has been astonishing. The mammoth steel, oil and tobacco trusts were sued, but so also were the kindling-wood, plumbers' and bill-posters' trusts, the existence of which was never before hinted at outside the comic papers, and now the Horseshoe Trust is threatened. Go over the list of suits brought under the Sherman Law. *It reveals the striking fact, not generally known, or heretofore anywhere emphasized, that the Law has been directed not so much against the great, formal, single trusts as*

*against individuals and moderate-sized and even small concerns in agreement one with another.* Besides the plumbers, bill-posters, and kindling-wood dealers, there have been grocers, a dozen associations of lumber dealers, coffee merchants, moving-picture men, wire manufacturers, wall-paper manufacturers, milk dealers, egg and butter dealers, meat dealers, cotton operators, manufacturers of enamel ware, a score of steamship lines, railroads in agreement as to rates, railroads in agreement as to the production of soft coal, railroads in agreement as to the production of hard coal, railroads in agreement as to the use of a terminal station, hide and rendering companies, magazines, manufacturers of lamps, and companies controlling towing facilities on the Great Lakes. Many of these associations were formed to fight a great trust which was attempting to monopolize the field. Now absurd as it may seem to invoke the mighty engine of the Sherman Law against the petty dealers in kindling wood, there is involved in suits such as these a principle of vital importance to the nation.

Most of the suits which have been pushed to a termination have spelled victory for the Government, and the defendants have been compelled to give up old practices. Many combinations have agreed to change their ways merely on threat of a suit, although the most expensive lawyers were on their side. What the Department of Justice has attacked are the agreements among numerous concerns, in no way connected by stock ownership, but all desirous in

some way of regulating the expensive and wasteful competition previously existing among themselves.

In almost every case, either where a suit has been fought to successful conclusion, or where the trust has come down like Davy Crockett's coon, the point at issue had to do with methods of selling goods. It is unnecessary to go into details here, but suffice it to say that many methods of reducing or destroying competition have been stopped by the enforcement of the Sherman Law.

But the present method of attacking combinations which work against the public welfare is most unsatisfactory. To the Attorney-General is left the discretion of bringing suit. So wide is the range which the suits already brought have taken, and so unlimited is the discretion of the Attorney-General as to what trade agreements he may attack that no business man can tell from day to day when he may be haled into court. At best regulation by lawsuit is sporadic and unfair. There is room for too much favoritism. One Attorney-General may be high-minded and wholly devoted to the public interest, but another may not. Regulation by lawsuit will not suffice. The country is too open to the evil of shifting policies. There is involved in this method no well-ordered or scientific system of regulating combinations.

Reference has already been made in an earlier article in this series to the hearings before the United States Senate Committee on Interstate Commerce held last winter. The



testimony given before the committee cannot be neglected by any serious thinker upon our present day economic problems. Perhaps the most striking feature in all this mass of testimony is the bewilderment of the business men; and by this term is meant the really constructive factors in our industrial life and not the speculators or the parasites. These men declare that they are in a quandary. They cannot tell whether or not they are violating the law. No matter how honest their intentions, at any moment they may be charged with crime. Naturally they are afraid to extend their business.

This is no slight matter, and the accuracy of the statement is confirmed by other testimony. One of the distinguished lawyers in the country with large experience as legal adviser of corporations, declares that he is unable to advise his clients with any degree of assurance. Where one concern may be haled before a court and another with apparently similar organization and methods is untouched, no wonder there is unrest and uncertainty.

But this is far from being the only objection to the one hundred and seven law suits. The country is fairly honey-combed with trade agreements — with informal trusts — if you will have it that way. Practically all business is carried on by means of trade agreements, more or less strong, and the business is usually prosperous where the agreements are strongest. Business men say they cannot prosper without these agreements. Cutthroat competition will ruin

them. They must associate one with another. But what are they to do with the terror of the Sherman Law with them by day and by night?

Moreover, where the Department of Justice has broken up one old agreement, there are hundreds which it has not reached. Samuel Untermeyer, the corporation lawyer, has gone so far as to assert that not one in a thousand has been touched. It is true that many of the old-style agreements have gone,—those that were made hard and fast in writing. Since the Sherman Law has been so extensively enforced most of these have become as dead as the old pool arrangements of two or three decades ago. There are safes in New York stuffed with the written evidences of these “conspiracies,” and with “big” men’s signatures attached to them. These agreements are no longer in effect, but how about the associations for the betterment of trade, the dinner and luncheon clubs, the reunions and general understandings, the gentlemen’s agreements, and the telephone messages?

In one of his campaign speeches Governor Woodrow Wilson remarked that the trial of the meat packers had developed some very interesting things. “We found out,” he said, “that you did not have to form a great combination, that all you had to do was to be polite, that all that the meat packers did was to meet without forming a legal or illegal union of any kind, and consult together as to what price they would like to have meat sell at. Then a very

nice young gentleman, whom they employed for the purpose as their secretary and spokesman, would write a very prettily phrased letter to all of them suggesting that perhaps it was desirable to quote meat at such and such a price and they felt bound by the etiquette of perfect gentlemen to observe that price. That is all."

There are undoubtedly dangers and evils lurking in the trusts, but much greater are the evils and dangers in the many forms of trade agreements, for they are vastly more numerous. At present the public has no protection against secret agreements except an occasional long drawn out lawsuit. But these suits with their revelations of the inside history and methods of American combinations show conclusively the remarkable similarity of many of these combinations to the long discarded pools of twenty and thirty years ago, and demonstrate beyond a doubt that combination through agreement or pool arrangements, where there is no merging of ownership or ownership interest of one concern in the other, is a persistent feature of modern industrial life. If further proof of this were required we need only look to Germany where combination and concentration has reached an even higher degree than in this country. (An Austrian Consul reported to his government that fifty men controlled the finances and industries of Germany solely through the form of cartels and syndicates, in other words through trade agreements.)

It is hopeless, then, absolutely to forbid business men, or

any other class of men, to agree. The more intelligent and efficient a man is the more likely he is to reach an understanding with others engaged in the same profession or trade. Try it on yourself. How would you like to be haled to court just because you had agreed on some detail of business policy with other men? The Congressmen who so suspiciously questioned prominent business men who appeared before them as to just how far these and other business men were in the habit of agreeing among themselves went out from the committee rooms and reached understandings with other Congressmen as to pending legislation.

The Sherman Law, strictly construed, would prevent an association of merchants from exchanging information valuable to every member. It has been held to be unlawful for a number of mills to have a common selling agent. Associations of farmers having for their purpose more systematic marketing of their products have been threatened with the terrors of the law. It is probably unlawful for fire insurance companies to maintain a common survey office to report upon the construction of buildings and the hazards, physical and moral, involved in insuring them. Coal and ice dealers, who, in order to lessen the costs of delivery, have divided the territory, have been branded as criminals. The purpose of all these agreements is the elimination of waste. If they are not allowed the cost of doing business is increased, and in the long run the consumer pays.

It is human nature, and especially modern human nature,

to reach understandings, or agreements, with our fellow men. But when these understandings adversely affect the lives of countless other fellow men what is to be done about it? Publicity is the thesis of these articles. We have seen that the tendency in large affairs is toward publicity. Why not allow business men to make agreements, provided, however, that these agreements, to be legal, be filed publicly with some government body? One thing is certain, that great benefits would follow from the mere publicity given to the filing of these instruments.

It may be objected that to permit business men to file trade agreements would merely be licensing them to raise their prices to the already overburdened consumer. But do these men not get together now and exact all they can? How much better it would be if their agreements, now wholly secret, were made public? For if all these agreements are made public they cannot exist very long unless they are legitimate and needful. In any industry the weak member, who is living on credit, who is reckless, and has nothing to lose, is the one who cuts prices to the bone and forces the others to follow. No one wants ruinous competition. In the case of one of the combinations now under attack by the government it is admitted in the government's own papers that before the combination was formed goods were being sold below cost, so ruinous was the competition. Such competition must necessarily result in agreement or in monopoly. In cases such as these, agreements of a certain

nature are needful and reasonable. But if business men feel they must put a brake upon the laws of ruinous competition, let them do so openly and present their agreements to the government for inspection and supervision.

But would it not be possible for men to continue to form secret agreements in addition to those submitted to the government for proper publicity and reasonable supervision? Such a thing is conceivable, but the great present motive for doing it would be gone. Any study of the corporation and economic history of this country will show that the chief motive for pools and agreements has been to prevent ruinous competition which is necessarily wasteful and expensive. But the Sherman Law does not recognize the legality of agreements even to this end. If such necessary agreements were legalized, there would be little motive for forming other agreements; and moreover, a strong Federal Commission on Interstate Trade would be able to ferret out such secret compacts as might be made, a task which is beyond the powers of the Attorney-General.

It may be suggested that this body would be overwhelmed with agreements. But these agreements are now in force. The public would not suffer more if they were made openly. There are less than 500 corporations doing a business of \$5,000,000, and a vast number of combinations of various descriptions are purely local. These could be cared for by state and city. Certainly if the Federal Government set the pace by requiring complete publicity in regard to all



interstate agreements, the states and cities would follow its examples in regard to combinations within their own borders. Meanwhile the Commission would be passing judgment upon them.

It is secrecy which works for evil. If business men form a pool or syndicate which is not unfair to the public then it can stand the light of day. If it is harmful, the publicity attending the filing of details would so arouse public opinion, even if there were no supervisory power to operate against it, that the agreement would soon become void. The force of public opinion would work more or less automatically to keep trade agreements within wholesome lines.

Even under the present haphazard method of regulating combinations by law suit the element of publicity has proven of great value. The mere threat of the Department of Justice to sue certain combinations after investigating their practices and telling the public through the newspapers of the essential features of such practices has served in several instances to end the evil practices. The electric-lamp pool did not carry its case to the highest courts after the fact that its members discriminated against buyers had been brought to the light in the lower courts. It is further reported that the photographic supply trust, against which no suit at all has yet been brought, has agreed to give up its practice of forcing customers to buy all or none of their supplies from it. Publicity brought about this result.

Publicity is a sharp sword that cuts deep. In a great

city where the dealers in food products were supposed to have an agreement to keep up prices, a semi-public body saw to it that for a period of time the prices of all foodstuffs were regularly published in the newspapers. The result was a sudden drop in prices on the part of the dealers.

The problem of cheap production of manufactured goods has, broadly speaking, been solved. Improvements in farm machinery and better methods in farming tend toward cheaper production of agricultural products. The problem of to-day is to secure cheaper distribution of these products to the consumers. It cannot be solved by throwing hindrances and obstacles in the way of the producers. On the contrary, every consideration of policy and good sense demands that they be permitted to eliminate all possible waste and duplication of service.

The trust problem is a big one. Men are afraid of it. They tremble before it. Many believe combinations must increase and wax greater and greater. But many of the greatest combinations in this country have waxed mighty, not because of natural advantages or increased efficiency but because of special privileges or because of predatory or piratical methods.

If competitors were permitted to make reasonable trade arrangements in regard to prices and output, the same to be supervised by a competent public body, "it could no longer be claimed," says Samuel Untermyer, "that the trust, with its attendant evils of stock watering, closing of factories,

oppression of competitors, and the many other attendant wrongs of permanent combination, is the only alternative. The temporary character of these agreements, the fact that each party continues to operate his own plant independently of the others, and gets exclusively the benefit of his own economies and superior management, and that competition on prices between the parties may be resumed at the expiration of the agreement, all assure the use of the most modern methods and the continued effort to cheapen production and to improve the quality of the product."

Many of the trusts have been defeated in the courts where the Sherman Law was invoked against them, and many have made overtures to the Government to give up methods which were piratical and predatory and re-establish fair play and open markets. These overtures came after the Government had given the fullest publicity to the unfair methods. But the Department of Justice can reach only a fraction of these combinations, for, as a rule, a lawsuit requires years to settle. This objection is serious, if not fatal.

Publicity must be applied by a commission, and it will then be found that as wrongful methods of competition disappear before the light, in which they cannot thrive, much of the dreaded tendency toward the concentration, consolidation, and centralization of our industries will dissolve into thin air.

## XXIV

# THE WIDENING VISION

It seemed superficially evident that in a democracy labor would naturally have the power to bargain and contract to its own advantage. But as recently as 1913 Mr. P. U. Kellogg pointed out in the *Political Science Quarterly* (xxviii, 594-606) that employer and employee alike were subject to economic forces beyond their control and that in consequence that kind of blind struggle resulted which is unavoidable "when the fabric of fair play is not strong enough or well enough devised to stand the tension." But even before the great war began the outlook was widening.

### A. LABOR RECOGNIZING ITS RELATIONSHIPS <sup>1</sup>

W. L. MACKENZIE KING

Before America or Africa was discovered, or the Orient was explored, men and women employed in the hand and home industries of Europe had little occasion for thought concerning the migrations of peoples from foreign lands or the investment of capital abroad. In Industry limited by hand tools and human energy, there was no need of concern on Labor's part because of the constant reduction toward a single act in a single process which modern invention, with its use of machinery and natural powers, its subdivision of

<sup>1</sup> "Industry and Humanity," pp. 53-55.

processes, and division of labor within a single process, has made a distinctive feature of the Industry of to-day. Neither could there be the same indifference to the skill of the worker as such, as impossible where numbers may be a more important consideration than even industrial equipment.

It has been the ever-increasing mobility and fluidity of both Labor and Capital which has compelled a recognition of the world-wide nature of Competition under modern industrial development. Finding, wherever there was human life, that there also was the possibility of increased competition in the struggle for existence, Labor, through unremitting efforts to fortify itself, has become conscious of the world-wide nature of this force. Like an onward surf, the tide of human life has surged toward industrial opportunity. Labor, in its thought of self, has been compelled to see that it must have regard for Humanity as a whole.

Labor has come to recognize its interests as akin to those of Humanity, because most workmen no longer are owners of their own tools, no longer obtain employment in their own shops, no longer work upon materials which for the time being are their own, and no longer sell the products of their own labor. They find themselves, on the contrary, possessed of little save their skill and energy; human beings who work with equipment which belongs to others, in establishments owned by others, upon materials the property of others, and who leave to others the disposition of the wealth

they have helped to produce. Workingmen and women have come to realize that, in the ever-changing conditions of Industry, they exist as atoms in a human tide so vast, and subject to such ceaseless ebb and flow, that the effort to secure collective stability becomes the first requisite of existence itself.

#### B. THE RIGHT TO ORGANIZE <sup>2</sup>

JOHN D. ROCKEFELLER, JR.

It is just as proper and advantageous for Labor to associate itself into organized groups for the advancement of its legitimate interests as for Capital to combine for the same objects. Such associations of Labor manifest themselves in collective bargaining, in an effort to secure better working and living conditions, in providing machinery whereby grievances may easily and without prejudice to the individual be taken up with the Management. Sometimes they provide benefit features, sometimes they seek to increase wages, but whatever their specific purpose, so long as it is to promote the well-being of the employes, having always due regard for the just interests of the employer and the public, leaving every worker free to associate himself with such groups or to work independently, as he may choose, they are to be encouraged.

But organization is not without its dangers. Organized Capital sometimes conducts itself in an unworthy manner,

<sup>2</sup> "Representation in Industry," pp. 13-15.



contrary to law, and in disregard of the interest both of Labor and the public. Such organizations cannot be too strongly condemned or too vigorously dealt with. Although they are the exception, such publicity is generally given to their unsocial acts that all organizations of Capital, however rightly managed or broadly beneficent, are thereby brought under suspicion.

Likewise it sometimes happens that organizations of Labor are conducted without just regard for the rights of the employer or of the public; methods and practices are adopted which, because unworthy or unlawful, are deserving of public censure. Such organizations of Labor bring discredit and suspicion upon other organizations which are legitimate and useful, just as is the case with improper organizations of Capital, and they should be similarly dealt with.

We ought not, however, to allow the occasional failure in the working of the principle of the organization of Labor to prejudice us against the principle itself, for the principle is fundamentally sound.

In the further development of the organization of Labor and of large business, the public interest as well as the interest of Labor and of Capital will be furthest advanced by whatever stimulates every man to do the best work of which he is capable; by a fuller recognition of the common interests of employers and employed; and by an earnest effort to dispel distrust and hatred and to promote good-will.

Labor unions have secured for Labor in general many

advantages in hours, wages and standards of working conditions. A large proportion of the workers of the country, however, are outside of these organizations, and unless somehow represented are not in a position to bargain collectively. Therefore, representation of Labor to be adequate must be more comprehensive and all inclusive than anything thus far attained.

Representation on the employers' side has been developed through the establishment of trade associations, the purpose of which is to discuss matters of common interest and to act in so far as is legally permissible and to the common advantage, along lines that are generally similar. But here also representation is inadequate. Many employers do not belong to employers' associations.

#### C. THE EMANCIPATION OF LABOR

##### WOODROW WILSON

"The workingmen of America have been given a veritable emancipation, by the legal recognition of a man's labor as part of his life, and not a mere marketable commodity; by exempting labor organizations from processes of the courts which treated their members like fractional parts of mobs and not like accessible and responsible individuals; by releasing our seamen from involuntary servitude; by making adequate provision for compensation for industrial accidents; by providing suitable machinery for mediation and conciliation in industrial disputes; and by putting the Federal De-

partment of Labor at the disposal of the workingmen when in search of work. . . .

“We must hearten and quicken the spirit and efficiency of labor throughout our whole industrial system by everywhere and in all occupations doing justice to the laborer, not only by paying a living wage but also by making all the conditions that surround labor what they ought to be. And we must do more than justice. We must safeguard life and promote health and safety in every occupation in which they are threatened or imperilled. That is more than justice, and better, because it is humanity and economy. . . .

“We hold very definite ideals. We believe that the energy and initiative of our people have been too narrowly coached and superintended; that they should be set free, as we have set them free, to disperse themselves throughout the nation; that they should not be concentrated in the hands of a few powerful guides and guardians, as our opponents have again and again, in effect if not in purpose, sought to concentrate them. We believe, moreover,—who that looks about him now with comprehending eye can fail to believe?—that the day of Little Americanism, with its narrow horizons, when methods of ‘protection’ and industrial nursing were the chief study of our provincial statesmen, are past and gone and that a day of enterprise has at last dawned for the United States whose field is the wide world.”

## XXV

# MANAGEMENT

As business improved in ethics management emerged into new prominence apart from ownership. Great corporations gave over to their executives sometimes almost unlimited authority. A new type of efficient, public-spirited, and even socially minded leadership developed.

### A. THE NEW TYPE OF MANAGER

#### E. B. GOWIN

The control of men is the real problem of every organization. Ninety-seven per cent. of a group of manufacturers interviewed declare it their most serious difficulty; scientific managers agree that systematic "soldiering" is the menace of industry; psychologists are convinced that the average man, without injury, could increase his output by a half; observation and investigation re-enforce the same truth, that progress waits upon men and is thus dependent upon executive ability.

This need for executive ability is fundamental in all organized effort. Wolves have a head of the pack, mustangs in the Southwest group themselves under some powerful male, sheep follow the bellwether. Monkeys, if we may believe travelers' accounts, on their raids or marches have gen-

eral and staff. The reason is evident. Leaders make for effective group action, and whether it be animal, herd, robber horde, war machine, or department store, effective group action in the struggle for existence means survival.

Opportunity for the executive, now as heretofore, treads hard upon ability. The centralization of industry, the growth of cities, the increased facility of communication, the development of the modern state itself, have alike socialized men, interlaced their interests, and expanded the boundaries of their collective life. The village squire merges into the representative, to appear before whose numerous constituents even requires much mileage and leathern lungs; stage-coach driver and keeper of the toll road have become railroad officials; peddler and money lender are transformed into department-store manager and corporation director, the one numbering his employees by the hundreds, his customers by tens of thousands, and the other with his finger on many of our purses; handicraftsman, swept by the new currents of business, becomes captain of industry, the term manufacture (*manu*, by hand, *factura*, a making; literally, a making by hand) to-day as a fossil revealing the surges of an Industrial Revolution. In short, wherever one may choose to look, tremendous undertakings are being rolled up and await direction. To fail here is to be crushed under the load of civilization.

With growth in size has come increase in complexity. It is no homogeneous population to which the present-day ex-

ecutive appeals. The old North-European stock, men from Ireland, Scandinavia, and Germany, no longer possesses America for itself, but must compete and mingle with the sons of Croatia and Serbia, Bulgaria and Macedonia. When these rub shoulders within the same organization, the racial difference in itself is liable to work demoralization through coteries and cliques. Moreover, the skilled are found with the unskilled, the strong with the weak, the cultured with the grossly ignorant; and machinery, pitting mechanism against man and mechanism against mechanism, complicates still further these human differences. Utilities are being produced, transferred, distributed, and consumed under conditions continually growing more intricate. And this affects not alone factory foreman or sales manager, but preacher, editor, politician, agitator. They all give-and-take within the social mass. For their diverse ends they have builded organizations without number, more complex than any timepiece. In such heterogeneity are vast advantages,—else it would not have come about,—but it requires skill to realize these in practice.

Another element involved is speed, a comparatively modern requirement. The ancient civilizations, Egypt, Persia, India, China, as the savage and patriarchal society which preceded them, gave promise of an advancement they somehow failed to fulfill. Shackle upon shackle—communism in property and industry; physical, economic, and social isolation; reverence for past achievements; rulership of the old;



hypertrophy of institutionalism — stagnated these ancient peoples. Once on the path of progress, however,— in itself a great achievement,— with competition and discussion, the forward look, the tentative attitude, and the future brightly painted, men began to feel a thrill in motion. Such is increasingly true in our day. The inventor scarce has perfected one device before he is urged on by fresh demands; the politician in drafting a good bill has won opportunity to draft better bills; the pleased scientist, contemplating his new generalization, is admonished to make it shorter and more comprehensive; industry, pressed hard by labor for higher wage, capital for increased interest, landowner for more rent, and management for greater profit, vibrates with energy, its individual workman speeded up, its organization adjusted so that from raw product to shipping room the material flows without congestion, its capital made active through frequent turnover. Yet to work rapidly, to meet the new and subdue it promptly, in the individual are characteristics of an expert; with huge and intricate organization, a task for super-man.

Much more comprehensive than size of organization, its heterogeneity, or the required speed of manipulation is the demand for effectiveness in its operation. In fact, size, complexity, and speed are in themselves but means to this larger end, efficiency. Fundamentally, what is here involved is nothing less than success in the struggle for existence, the prime consideration why any creature should limit its indi-

viduality in order to lead the collective life. Ants exhibit no Hobbesian war, but instead dwell in colonies together; prairie dogs live in towns; wolves hunt in packs; deer, cattle, buffaloes, and horses each group themselves into herds. Savages, in their clans, phratries and tribes, indicate one stage in the transition toward Greek city state, feudal holding, English manor, German free city, workmen's gild; and these in turn are but the forerunners of present-day municipalities, neighborhoods, trade-unions, political parties and corporations. Why have men thus persistently led the collective life? Because no principle is more basic than desire for greatest gain with least effort;—men through combined actions can accomplish what individually is impossible, they can get more as members of an organization than they could as individuals.

To fulfill this collective ideal of effectiveness requires, of course, concerted effort; members must work together. In the securing of such action, we note, all men are not of equal value, and herein lies the origin of leadership. Men by nature and nurture are unlike, quite in keeping with most natural phenomena, their qualities exhibiting a normal frequency distribution. Some few are geniuses, some few are cranks, most are mediocres. Now working together requires a certain degree of similarity; since mutually antagonistic men could never carry out a common enterprise, collective action rests upon proper conformity to type. Here arises the problem of the genius and the fool; they are unlike most

men, they insist upon retaining, nay, more than that, upon realizing, their unlikenesses; and it is difficult to distinguish clearly one from the other. The common criminal it is easy to lock up, yet what does the world not owe to Socrates, Jesus, Luther, Darwin? So stoned they the prophets. Selecting the right variate and cleaving only to him, thus becomes the chief business of the common man, for such variates are immensely helpful.

The particular direction in which his helpfulness is shown depends upon the group need. With enemies round about, the strong arm and steady eye have won respect. When unusual calamities, uncanny visitations, and magic portents terrorize simple faith, he leads who best can peer into the unknown, placate the unseen, and stiffen troubled souls. With men's energies harnessed to work, the materialistic conception of history widely held, and abundant natural resources waiting to be exploited, authority passes to the business man. Or again, a wider socialization emphasizes new alignments, elevating among men the applied scientist, the conservationist, the teachers of brotherhood, social justice, and other phases of applied idealism, as is being done in our own day. Be the particular need what it will, he who best aids his group in realizing it is the helpful variate, the successful executive.

It would follow that leadership assumes maximum importance in times when the organization is under stress. Herds of cattle feeding quietly represent thoroughgoing equality;

let danger threaten, and forward stalks the defiant bull. The arrival of a stranger in the Indian camp finds many hands pointing the way to the chief's tent. War clouds gathering in the East permitted Themistocles to break with all tradition by making Athens the greatest naval power in Hellas. It was when government of the people by the people, and for the people was threatened that Lincoln wielded a power such as few Presidents have ever possessed. Periods of uncertainty, of transition, of struggle intensify the group needs, and in them have all social saviors been born.

To whom shall we to-day grant this title? To him best able to bear the burden of a large organization, most versatile in dealing with its complexities, most adroit in pushing it at top speed, and most effective in guaranteeing its members greatest returns for least effort.<sup>1</sup>

That large salaries should be paid for such managers was inevitable. That they should acquire a vested interest in the business they managed was naturally frequent. That they should even exercise large powers without hindrance was not uncommon, and it is of this that ex-President Eliot speaks.

#### B. THE REWARD OF MANAGEMENT

##### C. W. ELIOT

A great capital at the disposal of a single will confers on its possessor power over the course of industrial development, over his fellowmen, and sometimes over the course of great public events like peace or war between nations. For

<sup>1</sup> "The Executive and His Control of Men": pp. 1-7.

some natures it is a real satisfaction to be thus a sort of Providence to multitudes of men and women, able at pleasure to do them good or harm, to give them joy or pain, and in position to be feared or looked up to. Great capital directed by one mind may be compared to the mill pond above the dam, which stores power subject to the mill owner's direction. There is pleasure and satisfaction in directing such a power; and the greater the power, the greater may be the satisfaction. In giving this direction the great capitalist may find an enjoyable and strenuous occupation. For a conscientious, dutiful man a great sense of responsibility accompanies the possession of power, and this sense of responsibility may become so painful as to quite overcome all enjoyment of the power itself; but nevertheless we cannot but recognize the fact that the exercise of power gives pleasure and satisfaction without this draw-back to men of arbitrary temperament, or of an inconsiderate disposition which takes no account of the needs or wishes of others.

The most successful businesses are those conducted by remarkably intelligent and just autocrats; and probably the same would be true of governments, if any mode had been invented of discovering and putting in place the desirable autocrats. The prevailing modes of discovery and selection, such as hereditary transmission, or election by a Pretorian guard or an army, have been so very unsuccessful that autocracy as a mode of government has justly fallen into disrepute. In business enterprises the existing modes of discov-

ering and selecting autocrats seem to be better than in governments; for autocracy in business is often justified by its results. The autocrat in business is almost invariably a capitalist; and when he possesses great riches he may be, and often is, highly serviceable to his community or his nation through his beneficial direction of accumulated and stored power. Whether he himself wins satisfaction through the exercise of his power depends on his temperament, disposition, and general condition of physical and moral health. When great riches are stored up in possession of one man, or one family, the power which resides in them can be directed by one mind into that channel, or those channels, where it can be made most effective, and this effective direction it is which brings out in high relief the usefulness of great riches.

What are ordinarily called benefactions — that is, gifts for beneficial uses — are, therefore, by no means the only benefits very rich men can confer on the community to which they belong. Any man who, by sound thinking and hard work, develops and carries on a productive industry, and by his good judgment makes that industry both profitable and stable, confers an immense benefit on society. This is indeed the best outcome of great riches.<sup>2</sup>

<sup>2</sup> "Great Riches," pp. 15-17.



## C. THE SUCCESSFUL BUSINESS MAN

F. W. TAUSSIG

The successful business man is the backbone of the well-to-do and possessing classes of modern society. His ambition is to accumulate, not merely to earn a living. The lawyer, the physician, the teacher, is reasonably content if he succeeds in supporting and rearing a family according to the standards of his class, and in making some moderate provision for the future; though, being in close association with the business set, he may be infected also with the fever of accumulation. But the business man cannot escape that infection. The aim of all in his class is to gain more than enough to support. To get together a competence or a fortune is the one test of "success." He must be able in his later days to live at leisure on his settled income, or at least transmit to his descendants the opportunity of leisure. We do not commonly think of the money-maker as a person who saves. Not infrequently he is a liberal spender. But spends less than he makes. His one aim is to make a great deal more than he spends, and to put it by. His accumulations, though they may involve a little conscious sacrifice, are none the less real savings, and constitute probably the most important source of the community's supply of capital. Though no statistical or quantitative measurement is feasible, it is probable that the larger portion of the extraordinary growth of capital during the last two centuries has come from the competence and fortunes of the business class.<sup>3</sup>

<sup>3</sup> "Principles of Economics," pp. 167-8.

# XXVI

## THE AWAKENING MIDDLE CLASS <sup>1</sup>

THOMAS R. MARSHALL

The ancient battle cry of the Templars was "God and my right." If this could have come down through the ages as the battle cry of mankind many evils might have been prevented, for he who contemplates God with His compromises and concessions between contending forces in nature would have been inevitably impressed with the great truth that "my right" is not a fixed, definite and unbending privilege to be, to think and to do what I please. "My right" is rather my duty to so adjust my aims and my efforts as to produce harmony in civil society.

Humanity, striving for higher and better things, particularly as exemplified among English-speaking peoples, soon clipped the Templars' motto into just "my right." The King who foolishly thought he ruled by right divine and that he could do no wrong interpreted "my right" to mean "my will" and regarded all other forces of life and society as subservient thereto.

<sup>1</sup> Reprinted from the *New York Times*, Sunday, October 5, 1919, by special permission.

Such a definition of "my right" inevitably produced friction, such friction that at Runnymede the barons wrested the great charter of English liberty from their overlord. And yet they learned but little. The battle cry was still "my right," and they assumed that all the other wishes of mankind were held in bondage to their own; and thus the laws were largely made for themselves, incidentally for others.

With the printing press, knowledge came, and the so-called great middle class of the world, more especially the business man, took charge of the conduct of human affairs through legislative bodies. And still wisdom lingered and still the cry was "my right."

Another, and the greatest of evils in all the history of humankind, has taken place: the man who thinks he works exclusively with his hands, but who, if he stopped to consider would realize that his hands are only doing what his brain lays out for him to do, has marched upon the scene of government.

Does wisdom still linger and is the old cry of "my right" again to be exemplified or attempted to be exemplified by these men taking into their hands the machinery of government and fixing by man-made laws the political, social and economic conditions of the world? Is it to be a repetition of the old experience of humankind,— "my right," regardless of the other fellow?

Here and there in the long process of the ages there has been a gleam of light from individuals and from groups of

men, and in 1776 a theoretical sun arose, called the Declaration of Independence, to shed its light upon the world. Is it to prove to be a pale, anaemic sun, or is it to be a glowing, refulgent, warming and earth-revivifying source of light and heat and power?

The long, long fight from John at Runnymede to Haig and Pershing in Flanders and in France seems to have been fought under the battle cry, "my right," and "my right" seems always to have been to seize the instruments of power and to wield them regardless of my duty and regardless of the rights of others.

If in my own little political or social life I had ever sought or defended legislative enactment for myself or for any particular group of my fellow-countrymen, then I ought to be estopped from making this inquiry: Has not the hour struck upon the dial of time when the great mission of English-speaking peoples and, more particularly, the great mission of the American, is to teach and to live upon the principle of the mutual duties of men toward each other and of organized society toward all its members?

No defense can be made of the past, seamed, scarred, mutilated and blackened by special legislation as it has been. What is to be said of the laws of government which, defining crime, declare that of two men committing crimes one shall by the law be deemed guilty and the other by the self-same law be held innocent? What sort of a democratic brain is it that hunts a moonshiner to his lair, arrests, con-

victs and incarcerates him in a Federal prison, and elects to the United States Senate the man who buys his product?

Special legislation must necessarily come so long as the old cry of "my right" remains the battle cry of the Republic and so long as men are recognized as good citizens, at the same time separating themselves and their interests from the common weal.

I know what hot blood can do. I know how self-defense can rapidly degenerate into willful murder. I can thoroughly appreciate how the long, long years of injustice have warped their judgment and made vindictive many of our citizenry. I can even sympathize with those who, having been the victims of special legislation, declare that now is the time to pay back the grievances they have suffered in legislative coin of like mintage.

But there are many in this Republic — I think a majority — who have never voted for any special privilege to any man or set of men; who, from the first moment of their conscious political and social life, have been convinced that the never-ending contest of class against class, of prejudice against prejudice, of right against right is the most inimical thing in the life of the State.

Have we learned anything out of the great war through which we have just passed? Have we only thrown off a military autocracy to take up and countenance an autocracy of either wealth or poverty? Is there enough calm and deliberate judgment and courage in the Republic to take

from Independence Hall the Declaration and write it upon the life and conduct of the Republic?

Have not twenty centuries of Christian civilization yet taught, not as a mere catchword but as the moving force of life, that no man has a right without having a duty superimposed upon that right?

Are we so blind, so childish, so impotent as to dream that, if either individually or by association we convince ourselves that we have certain rights and that governments are ordained among men, we can get hold of the government, to assure us of those rights, regardless of their effect upon our fellow-men? If so, instead of peace on earth to men of good-will, out of this war there will simply proceed chaos and disorder, murder and rapine in society.

I am an optimist. I have a blind yet sure belief that legislative enactments will be overturned and overturned until only the right shall rule in the world, and I have a blind belief that the mysterious workings of conscience will affect the private and individual life of the citizen until a like result will be obtained in his social and economic relations with his fellow-men.

Who is there that dare deny that right and duty are the twin hand-maidens who minister to every thinking man? Who is there that can dispute that the Republic will not long remain the Republic which the Fathers thought they founded if contending classes are to continually clamor for their rights and to be utterly oblivious of their duties?



Are not men well assured that in the interests of the common good and in the preservation of an individualistic Republic, more and more the individual citizen must consent to modify and lessen what he calls his right when by so doing he can contribute to the welfare and happiness of his fellow-men? And is not he a foolish man who seeks to alter this immutable law of God by legislative enactment of the social conduct? And sooner or later will he not find himself an outcast?

Human nature is very human. Many men will gladly do by advice, admonition and reproof things which, if enacted into law, they will bitterly resist. The never-ending quarrels between capital and labor are getting nowhere, and the reason is as plain as a pikestaff — each thinks of itself as a class; each raises its battle cry “my right”; each stands and glares at the other; each knocks at the door of Congress, importuning, advising, suggesting and threatening; each takes advantage of the weakness and frailty of legislators.

When is there to be a real, mutual partnership between these contending forces, a partnership not of money and of hands, not of dividends and of wages, but a partnership of confidence, respect, esteem and mutual help?

When will the employer open his factory, not exclusively for profits but also because he loves to see what his fellow-men can do and because he feels that it is his duty to give his fellow-men a chance in this great Republic? And when will the employe do his work because he loves to see his fin-

ished product and because he has faith that out of their joint relationship peace, prosperity and good order will come to the State?

It is a sad commentary upon our civilization, and upon the freedom which we have and which we enjoy, if the sons of God, garbed in human flesh, have become so obsessed with their individual rights that they are not willing to stop and consider their duty to their fellowmen and, having seen it, lack the courage to discharge it.

Many who have been unjustly oppressed by legislation in the past are going to be very slow to consent to a change of the system. But the old methods of legislation must stop, or the Republic must die. The war, ostensibly if not really, wiped out for us the political, hyphenated American; the war will have been in vain if it shall not also have wiped out for us the hyphenated, economic American, and has not taught us that, from him who has most to him who has least, as the days go by, individual right will grow less and individual duty will grow larger.

How many millions of times has it been declared upon the stump that this was a Government of equal and exact justice for all men and special privileges for none!

It is not needful for you to go back and point out to me the black record of legislation which discloses this too often to have been the perfervid oratory of a political campaign. It is not needful for you to show that it has not been kept in substance or in spirit. Do not search the record and flaunt

in my face the innumerable instances of special privileges granted in the Republic.

I do not like the word "class." It savors too much of monarchical government — yet it expresses better than any other word certain real conditions in American life.

There is a great middle class in America who have had nothing to do with these special privileges otherwise than that they happened to live in the Republic when they were granted. They are not organized so as to be heard in the halls of Congress. They constitute the backbone of the Republic. They do not want to form themselves into an organization, but they are rapidly coming together, and it will not be long, unless the plain truth is seen and acted upon in business and in legislation, until they, too, will be hammering at the doors of Congress, saying, "We, too, have some rights in this Republic for which we have lived and labored and which we love."

They, too, will say to legislative bodies, "If you do not have courage enough to legislate exclusively for the American people, then you are going to legislate for us or out you go and we'll put somebody else in who will." They are going to speak in unison, declaring: "We prefer to be just plain Americans who ask nothing but justice for our fellow-men in the same measure that justice is meted out to us — but unless the clamor for special legislation to enforce individual or class rights ceases, we, too, are going to be a class demanding to be heard and cared for." And they are going

to say in the social, economic life of the Republic, "Right and duty walk side by side in every calling, and he, whether rich or poor, who does not hear and listen to both voices, shall be for us a social outcast."



## XXVII

# THE PUBLIC <sup>1</sup>

LESLIE WILLIS SPRAGUE

Society then has a right upon its prerogative — upon its demands that what shall serve the interests of any part shall also serve the interests of the whole. Society also has the advantage of being able truthfully to say that whatever does truly serve the interest of the whole must inevitably serve the real interest of any party. It is society that bears the burden of this maladjustment of industrial controversy. When the street cars are closed down in New York City because of the strike of the workers it is the whole community that walks and is greatly inconvenienced in carrying on its work. When a railroad strike is imminent we begin to wonder what will become of the great cities that are dependent upon the transportation facilities for their food. All New England is only four days from starvation, and it is a very serious matter. If there is to be a railroad strike and stop the transportation of food it will be the entire population of New England that will be afflicted by a stopping of transportation facilities and not simply the few employers represented in the railroad corporation stock.

<sup>1</sup> The Industrial Conference of the Interchurch World Movement, October, 1919.



When there is a loss of production by the slowing down of the industrial process by discord in the plant, by a controversy with the foreman of the management of the corporation, it is society that loses the production — the burden comes not upon the employer or the employee alone, nor upon the two of them together, but the real burden comes back upon society. The burden of every strike is borne in the long run by the community, and in every readjustment of labor conditions the assessment of the expense of that readjustment is made upon the public.

The public then not only has a right to insist upon the fulfillment of obligations but it is in duty bound to insist that the obligations which the employer and the employee alike owe to the community and to the State and to the world shall be fulfilled.

I think that we need to define clearly the part that society takes in the readjustment and in the relationship between employer and employee. Sometimes the public is more complete than at other times. At all times all are included in the public. Just now in the steel situation it is only after all a small part of the whole United States that is involved in the strike directly, and yet it is the whole United States that is involved in the one industry.

Those who are on strike, those who are locked out, suffer doubly, directly in the loss of the day or the weeks of the month's wages, indirectly in the increased cost of living.

During the period of the war we became so that we

nearly forgot that we belonged to ourselves, that we belonged to groups within the whole, and remembering only the fact that we belonged to the whole we were proud to be more than an American, we were proud to be also a part of the forces of the Allies. We had little labor trouble during the war months, not so much as has been suggested because of the power of the Government in the matter, as because of the recognition on the part of employer and employee that they were public and not private; that they belonged to the State and to the world and not simply to their own part of the industrial organization.

I think if we could bring the entire community — everybody both employers and employees and all the rest to realize that we are first of all parts of humanity and not first of all employers or employees, we would go a long way toward solving the problems of the industrial unrest.

If we could make very clear through right economic teaching that we are, every one of us, consumers, and that our part in society as consumers is just as much an economic matter to us as our part as workers, wage earners, or coupon cutters — if we could get the idea of our membership in society as consumers and keep that by our total relationships we would go far to help ameliorate the present emphasis which rests upon an undue magnifying of the productive function.



## XXVIII

# SOCIAL RIGHTS <sup>1</sup>

GEORGE E. ROBERTS

The labor question continues to dominate the business situation all over the world. Everywhere the efforts to revive productive industry, supply the pressing wants of the population and lower the exorbitant prices which are prevailing, are embarrassed by sudden strikes, paralyzing production and throwing transportation and trade into confusion. The strikes are all justified by their promoters on the ground that the cost of living is higher. Each group is aggrieved by a condition which other groups have created, and heedlessly and recklessly resorts to action which increases the general distress and confusion.

Reasoning people of all classes must be impressed with the utter lack of any sense of public responsibility, or of obligation to the community, on the part of many of the persons and group leaders participating in these strikes. They take action which they fully expect will work fearful hardships and injury to great numbers of innocent people, who are helplessly involved as members of the community, with-

<sup>1</sup> From *The Americas*, October, 1919.

out any compunctions whatever. Moreover, it is strange that the public seems to be so helpless. Men deplore the situation, but speak of it as though it was a necessary result of a competitive society. It is not competition. It is combination carried beyond bounds, to where it is destructive of organized society.

Any policy which if carried out freely will break up community life, disrupt the whole system of industry under which people rely upon exchanges with each other, and force society back into barbarism and anarchy, may be condemned without argument. There is no room for argument. There must of necessity be such a compromise and limitation of personal rights as will permit people to co-operate in community life.

The present state of disorder over the world is due to a want of comprehension of this fundamental necessity for community co-operation, and of the obligation that rests upon each individual to so govern his own actions that he will not infringe upon common rights which are essential to the community life.

Society in its efforts to find the most effective methods of production seems to have developed industry beyond the comprehension of the population or beyond the sense of individual loyalty or obligation to the community of which each is himself a dependent part.

The railroad unions of Great Britain suddenly shut down traffic, hoping to create such distress that the whole nation

would fall to its knees and ask for the terms upon which they would relent, in order that the population might again receive food and go about earning a living. Such an arbitrary act is nothing less than a violation of a public trust. The men who operate the railroads do so under an implied social contract with their fellows in the community that they will perform this necessary service faithfully, in consideration for the services constantly rendered by other groups to them. The arrangement is voluntary but mutual in benefits, and since the groups must depend on each other, there are mutual obligations. Individuals, indeed, may withdraw singly from their places in the organization, because such changes may be made without interrupting the service, but a deliberate attempt to paralyze a great service which is necessary to community life cannot be justified. It is taking advantage of a state of dependence and trust to impose terms by force.

To the surprise of the British railroad operatives the government hastily organized a service of motor cars which was successful in moving food supplies to the great population of London and other cities, so that no calamity occurred, although the industrial losses were heavy. The vast laboring population of London, including the families of the strikers, were saved from hunger by this improvised service. But what is to be said of this deliberate attack upon community life?

The strike was settled by compromise, although the government sustained itself very well.



A similar attack is contemplated by the coal miners of this country, who have submitted extraordinary demands and given notice of their determination unless the demands are granted, to close up the mines at the beginning of winter. Their President has given out a statement in which he says, in effect, that the miners have sought very earnestly to have their demands granted, and having failed, the responsibility rests upon the employers. The miners' convention seems to have tied the hands of its officials by forbidding concessions or arbitration. The operators might avert a shut-down only by accepting the terms named.

The whole world is short of coal. England before the war was the great coal-exporting country, sending great quantities to South America, France, Spain and Italy. But the British mining unions have so reduced production in that country that but little is available for export. The industries of France and Italy are handicapped by the high price and short supply. Coal is selling at over \$100 per ton in Italy and is scarcely obtainable at that. Factories must shut down and wage-earners be thrown out of employment for lack of coal. With conditions nearly desperate in those countries, the lack of coal seems to be the last straw. American is the only hope, and here a shut-down of production is threatened.

In this country the consumption of coal is mainly direct from the mines, so that a cessation of mining means that industries will soon have to close down, throwing thousands

out of employment, cutting off their earnings, and increasing all industrial costs when operations are resumed, not to speak of the suffering which must result from a shortage for heating purposes. Coal is one of the necessities of community life. The miners, of course, know this, but apparently have no other thought about it than that it affords them the opportunity to make their own terms, which in this instance includes a 60 per cent. increase of wages over the war rates, six hours of labor per day and five days per week.

The shortening of time is defended on the ground that it is necessary in order to give regular employment to all the miners who have been in the army as well as the men who have entered upon mining during the war. The defense is an offense against common sense at a time when so many industries are in need of labor as they are at this time.

In short, a strike of coal miners would be a blow at the community life. It is like a threat to pull down the house in which everybody lives unless some of the residents will yield to the demands of others. A threat is made to sacrifice the common welfare, in the hope that the other party will show more solicitude for that welfare than the one who threatens. And even that is not a full statement, for the public welfare in this instance would be gravely affected if the demands were conceded.

It is natural to ask whether the community has any

means of protecting itself in an emergency of this kind. Does it concede the right of the workers who happen to be employed in mining coal to control the supply of coal for everybody and, by arrangement among themselves, shut it off unless their demands are acceded?

Here again, far more is involved than the right of individuals to seek their own personal welfare. The combined action would be an attempt to take an unwarranted advantage of a relationship which the miners, through no special merit of their own, happen to hold to the community. It is not to be regarded as merely a controversy between employers and employees. The rights of the community are paramount, and where that is the case the public must be privileged to act in whatever manner may be necessary to protect the common welfare. The right of individuals to combine and promote their private interests never can be maintained over the rights of the entire community.

These are fundamental principles, based upon the moral law which must govern the relations between men in community life. The moral law is also the economic law. In the long run, public opinion will recognize that it is the law of social necessity, and must govern. Social progress is made as people become sufficiently enlightened to understand and agree upon the conditions which are necessary to harmonious and effective co-operation. And as the process of enlightenment is individual and voluntary, there is always ground for

doubting the efficacy of legislation to coerce either employers or employees. Their minds must meet to really achieve the desired results.

It may be added, however, that capital has long since been brought under subjection to the public interest. Wherever an investment is "affected of a public use," or holds a monopolistic position which enables it to dictate terms to the public for necessary services, it is subject to regulation and control.

The present critical state of industry compels careful examination of the leadership and objectives of the labor organizations. These organizations are more aggressive than ever in increasing their membership and extending their influence. They are appealing for popular sympathy and support, and it is a fair question how they propose to use the new powers they are seeking.

This is not questioning the right of organization, or the propriety of collective bargaining. In the abstract these are not in dispute, but after they are conceded, there remains the very pertinent question, whether the ideas and leadership now dominant in organized labor are making for harmony and efficiency in industry or against it? It is a practical question whether the public interest will be served at this time by having industry brought more completely under the power of these organizations. Are they showing the consideration for public interests and the understanding of

economic principles which ought to govern at all times, and especially in this time of world emergency?

The public should not take sides with Capital or Labor as such. It should hold a dominating position over both, and require that in all efforts to promote their own interest they confine themselves to policies which are not prejudicial to the general public interests. The chief public interest is in the progress of industry, constant improvement of the methods of production and an increasing output of all things that minister to the comfort of the masses of the people. That is the sure way and the only way of social progress.

One may accept organized labor as an established factor in industry as most employers do, whether they like it or not, and even accept and approve labor organizations as necessary to preserve the equilibrium between the industrial forces, and still question the advisability of having these organizations established in a more dominant position than they hold now, or strengthened by further legislative enactments.

It is desirable that every influence that seeks a dominating position in the social organization should be required to justify its policies from day to day, and show a proper respect for public opinion. For its own guidance and development, so much of challenge and criticism is necessary, and it is well-warranted criticism to say that, in this epidemic of strikes which is raging, with a general effort to shorten

hours and curtail production at a time when the interests of the great body of consumers require larger production, organized labor is not showing a proper consideration for public opinion or the public welfare.

This is the fact which looms up at the present time above all the abstract and sentimental arguments for the right of collective bargaining, etc. In many instances the regular union authorities have lost the control which belongs to them under the rules of the organizations. In New York the pressmen's unions are in rebellion against their supreme authority, and practically all magazine and book printing is suspended. The dock workers of New York and other cities along the coast have gone out on a strike which their responsible officers acknowledge to be in violation of their signed agreement. This means that more radical leaders have seized control and are using the organizations.

This lack of responsibility in the organizations, indifference to agreements, conflicts of jurisdiction, which often cause costly interruptions of work through no fault of the employer and general indifference to everything but their own wants, are what cause employers to fear the power of the unions. They are reluctant to place their works under such control, and why should the public blame them or side against them? The public is interested in having peace in industry. Existing conditions do not afford a fair basis for the claims of the unions upon the sympathies and support of the public. They need to clean house and develop in their



membership a higher sense of social responsibility in the use of power before asking the public to help them obtain more of it.

This is simply an application of the common law ruling throughout society, that individuals and organizations shall justify their claims and aspirations to higher trusts and responsibilities by the manner in which they deport themselves in the trusts that have been confided to them.

There need be no trouble about collective bargaining, or shop councils, or profit-sharing co-operation, or any of the other conditions, or alleviating remedies which are suggested, provided the spirit of co-operation is shown by all parties. But first of all, there must be agreement upon the main purpose to be accomplished, which is to obtain the largest practicable production.

There are intelligent labor leaders who recognize this. Secretary W. B. Wilson, of the Department of Labor, in his opening address to the Industrial Conference summed up the case admirably when he said:

“If wages are increased and profits remain the same, the burden is passed on to the consuming public in the form of an increased cost of living, and comes back in that form to the wage worker himself. No portion of improved living standards can come out of the profits of the employers unless there is profiteering.”

Unfortunately, these men are unable to control the organizations. The machinery is taken in hand by others. A

great educational work remains to be done before the unions are guided by such men as Secretary Wilson, but the demand is for more power immediately.

The common testimony of employers is that, with shorter hours and higher pay, efficiency, instead of improving, actually diminishes. The trouble is that the spirit of co-operation is wanting; the will to increase production is wanting. There may be skepticism as to statements of this kind from employers but there is impartial testimony which cannot be discredited. Professor William Z. Ripley, of Harvard University, chairman of the National Adjustment Commission of the United States Shipping Board, which has "adjusted" the wages of longshoremen until they are 70 cents an hour for 8 hours, and \$1.10 for overtime, against 33 cents in 1914, in a statement to the International Longshoremen's Association, said: "As wages have gone up productiveness has gone down, with the result that the direct cost of turning a ship round at Atlantic ports is at least three times what it was in 1914," a condition he said that "was absolutely ruinous" and if not corrected would make the creation of a great American merchant marine impossible.

It is to be freely granted that the root of the trouble is in the wide-spread belief that the wage-earners have not received a fair share of the product of their labors, but this recognition does not justify concessions which will only lead to greater confusion and disappointment. It is certain

that industry must be directed in accordance with economic law, and that no policy which conflicts with it can produce any benefits. If we have indeed developed our industrial system beyond the ability of the population to comprehend it, and our population has increased beyond the possibility of its finding a living by a more primitive system of industry, the outlook is dark indeed.

But we should take a more hopeful view, and confidently teach the doctrine that the natural laws, by means of which the human race has achieved all the progress of the past, are still trustworthy and, if allowed to function without ignorant interference, will continue to improve the conditions of life for all.

## XXIX

# GOODWILL TO MEN

JOHN R. COMMONS

Goodwill is productive, not in the sense that it is the scientific economizing of the individual's capacities, but because it enlists his whole soul and all his energies in the thing he is doing. It is that unknown factor pervading the business as a whole, which cannot be broken up and measured off in motions and parts of motions, for it is not science but personality. It is the unity of a living being which dies when dissected. And it is not even the personality of a single individual, it is that still more evasive personality to which the responsive French give the name, *l'esprit de corps*, the spirit of brotherhood, the solidarity of free personalities.

It is this corporate character of goodwill that makes its value uncertain and problematical. A corporation is said to have no soul. But goodwill is its soul. A corporation owns its goodwill, and the value of goodwill is reflected in its stocks and bonds. It is the soul of a going concern, the value of the unity and collective personality that binds together all its parts in a living organism.

It is this unmeasured quality of goodwill that scientific

managers are feeling after when they explain the breakdown of scientific management. Mr. Taylor explains it by saying that employers are too hasty for profits and are not willing to wait for the slow and patient work of science. Mr. Hoxie points out that of the thirty or forty establishments picked out by scientific managers and recommended to him for investigation only two or three had carried out completely the patient trials, tests, experiments, upon which alone can science be called scientific. Before time-and-motion studies are even begun with the workmen, two or three years may be needed to bring about the proper engineering revision of the physical plant. Not until that is accomplished is the truly scientific manager ready to enter the field of labor's habits, traditions, prejudices and old-fashioned ways of doing things.

Even then, the expert is only an adviser. He is an outsider without authority. It is the employer who installs the devices and controls their use. So, scientific managers reach the point where they instruct, not the workman, but the employer. They urge him to give to the scientific man authority in his establishment. The employer should give up his desire for immediate profits and should abdicate in favor of the scientific engineer. The autocratic method breaks down at the point where profits without science take control of the worker.

It is this that stands in the way of any automatic solution of the labor problem that the engineer may devise. He can

fashion a machine or lay out a factory and then go away and leave it to work according to its inherent forces. So he fixes up a scheme of nicely adjusted measurements and inducements by which he expects the human machine to turn out a product. Then he goes away and leaves it to the employer to operate, in confidence that he has invented an automatic solution of the labor problem.

This might suffice if he could tie up the worker by a contract that would hold him to work, no matter what changes subsequently occur. But the labor contract is not automatic and is not enforceable according to specifications. It is a new contract every day and every hour. It is the only contract that is not sacred. If, when a man is hired for a period of time, he could be compelled to fulfill his contract, the result would be involuntary servitude. On the other hand, if an employer is compelled to keep a man according to contract, then the employer might be compelled to have on his hands a man not suited to his work or not willing to work. So, in the last forty years, since the Thirteenth Amendment to the Constitution, the labor contract has become universally, except in the case of certain professional services, a contract terminable at will without damages collectible in court. The workman can be fired at any hour of the day and he can quit at any hour, regardless of what promise has been made and without a legal penalty. So the labor contract is new at every turn of the work that is being done. The laborer is bargaining while he is work-



ing, and his tacit offer to the employer is the amount of work he is turning out. If the employer accepts the offer he keeps him at work. If the employer wants a different contract the old one is already terminated by the very words that suggest a change in the amount of work.

Scientific managers have sometimes tried to meet this situation by stipulating that prices and premiums once set shall never be changed. But this is impossible, and such a promise must be broken. Good faith may possibly be kept with a certain individual even though he may double and treble his wages unexpectedly. Even that is unlikely. When he leaves his job, when another takes his place, when unemployment breaks the connection, the moral obligation may be deemed fulfilled. A new contract is made, a different price is set. The individual promise may not be violated but the contract changes with individuals. The promise made to one does not hold with his successor, nor even with him if the job changes.

Generally, instead of a promise that the price shall never be changed the promise is made that it shall hold for a year. This is about as far as the promise can go. Even then, the daily work and wages are the tacit offers made in advance and in contemplation of their effect on the new bargain when it comes to be made. There must be a change sooner or later. Industry is improving, and if no change is made in the contract, the worker gets the sole benefit of progress at the expense of capital or the consumer. On the other

hand, competition forces the employer to cut the rates or go out of business.

So, for these reasons, an automatic system designed as an ultimate solution to wind up the labor problem and let it work itself out is impossible. The labor problem is a daily trial of strength. The socialists call it a class struggle. It is a continuous bargain every day and hour, renewed either in the prices that are to be paid or the amount of product that the worker turns out. And it is this very renewal of bargains that constitute goodwill in law and in fact.

Goodwill is the offspring of liberty and grows in importance as liberty enlarges. The slave-owner does not depend on goodwill, else he would emancipate his slaves. When the labor contract was enforced in law, the crime of running away was the employer's substitute for goodwill. And if the employer's competitors do not have access to his laborers, in order to give them information about alternative offers, it is not their goodwill that he depends upon, but their ignorance.

For goodwill is competitive persuasion. It is knowledge of alternatives and freedom to choose them without penalty or sacrifice. If there are no alternatives, or no knowledge of them, there is no goodwill. In prosperous times, when alternatives are numerous, the turnover increases. In hard times it is reduced. In prosperous times, too, the workers reduce their output. In hard times they work harder. And this is the curious paradox of modern industry and of the

supply-and-demand theory of labor, that in hard times when there is already an overproduction of products relative to demand, the workers still further increase the overproduction by working harder; while in good times when demand outruns supply, the workers intensify the undersupply by still further reducing output. The manufacturer or merchant reduces his output when there is an oversupply on the market, but the wage-earner increases his, and vice versa. Commenting on this situation during a period of prosperity, a great employer once said to me, "Yes, these fellows will not work now, but hard times will come and then we will soak them." With such a theory and such conditions it is fear rather than goodwill, retaliation rather than reciprocity, servility rather than freedom, that governs labor's production of wealth. Scientific management has made a great advance away from this commodity theory and its results. To the scientific study of goodwill and labor turnover we must look for a still greater advance.

For goodwill is coming to be an intangible asset of business more valuable than the tangible properties. It is the life of a going concern. Business goodwill, commercial goodwill, trade name, trade reputation, trade marks, often exceed in value the physical plant and the inventory of stock on hand. Goodwill is valuable because it lifts the business somewhat above the daily menace of competition and enables it to thrive without cutting prices. And what is "good credit" but the goodwill of bankers and investors?

So industrial goodwill is a valuable asset like commercial goodwill and good credit, and becomes so, more and more, in proportion as laborers acquire more liberty, power, intelligence, and more inclination to assert their liberties. It too is valuable because it brings larger profits and lifts the employer somewhat above the level of competing employers by giving him a more productive labor force than theirs in proportion to the wages paid. And this larger profit reflects itself in the larger value of stocks and bonds, the higher capitalization of the going business. Goodwill is the expectation of future profit, and whether it be the commercial goodwill of patrons and customers, or the credit goodwill of bankers and investors, or the industrial goodwill of laborers, it has its present market value, sometimes greater than the value of all the tangible property of the business. Indeed, without goodwill, the tangible property is a liability rather than an asset.

But goodwill is fragile as well as intangible. It is not merely past reputation, it requires continuous upkeep through continuous repetition of service. It breaks down easily by deterioration, for it is built up on the most fragile of assets, the freedom of the will of patrons or workers. It cannot be wound up and allowed to run itself like a machine. It is not an exclusive monopoly protected by law like a patent right. It is not even a contract enforceable in law. It is just the intangible chance of making a contract if you can. It is menaced by competitors who are perhaps

just as free and able as the owner to build up their own goodwill by making contracts, and only the employer who seriously appreciates the increasing importance of this aspect of the labor market will meet successfully either the counter-inducements of his competitors or the growing demands of the public that supports the cause of labor.

For it is goodwill that converts the "class struggle" of socialism into class harmony. It converts retaliation into reciprocity. Where it does not exist, there the public, more and more, is turning to another theory not merely the goodwill theory of labor but the public-utility theory of labor.<sup>1</sup>

<sup>1</sup> "Industrial Goodwill": pp. 19-27. Reprinted by courtesy of the McGraw-Hill Book Company.

## THE EDITOR

The shot fired at Sarajevo almost everywhere halted social and industrial discussion. With the world afire the disposition passed for capital to speak of "meddlesome interference," and labor either declared a truce — as in England — or — as in this country under the leadership of Mr. Gompers — at once came wholeheartedly to the defence of civilization. Chambers of Commerce and other bodies representative of business opinion registered with singular accuracy the transformation of bad business into "bad form." Rich and poor, management and public alike, placed their services and their time at the disposition of the Government. The ground was cleared for the building of that new world "where" — to quote Mr. Lloyd George — "labor shall have its just reward and indolence alone shall suffer want." This volume therefore has served its purpose if by setting forth some representative thinking it has pointed the way from the old world to the new and also cleared the ground for consideration in a subsequent volume of some problems which are pressing for solution now that war is done. Out of the total only a few problems of an illustrative character could be selected.



[Recently the Premier of England addressed to the people of Great Britain, through "The Future," a national publication issued for free distribution, the following message:]

"Millions of gallant young men have fought for the new world. Hundreds of thousands died to establish it. If we fail to honor the promise given them, we dishonor ourselves.

"What does the new world mean? What was the old world like? It was a world where toil for myriads of honest workers, men and women, purchased nothing better than squalor, penury, anxiety, wretchedness; a world scarred by slums, disgraced by sweating, where unemployment, through the vicissitudes of industry, brought despair to multitudes of humble homes; a world where, side by side with want, there was waste of the inexhaustible riches of the earth, partly through ignorance and want of forethought, partly through intrenched selfishness.

"If we renew the lease of that world, we shall betray the heroic dead. We shall be guilty of the basest perfidy that ever blackened a people's fame. Nay, we shall store up retribution for ourselves and children.

"The old world must and will come to an end. No effort can shore it up much longer. If there be any who feel inclined to maintain it, let them beware lest it fall upon them and overwhelm them and their households in ruin."

It should be the sublime duty of all, without thought of partisanship, to help in the building up of the new world, where labor shall have its just reward and indolence alone shall suffer want."—LLOYD GEORGE.

"In the old days the common ambition of every simple soul was to possess a little property, a patch of land, a house uncontrolled by others, an "independence," as the English used to put it. And what made this desire for freedom and property so strong was very evidently the dream of self-

*expression, of doing something with it, of playing with it, of making a personal delightfulness, a distinctiveness. Property was never more than a means to an end, nor avarice more than a perversion. Men owned in order to do freely.*"  
—H. G. WELLS.

*"It is hardly too much to say that if Great Britain should lapse into disorder for one weak moment the whole future of civilization would depend on one country, and one alone — the United States of America."*—ALFRED NOYES.

*"The war is over, but the perils of democracy seem as great in 1919 as they did in 1917."*—ARTHUR T. HADLEY.

*"Always there are strains not yet relieved and the more rapidly society evolves the more of these strains there are. It ought to help us to keep our tempers if we recognize that for much suffering no one is to blame. You cannot lay it to persons, it is simply a by-product of social evolution. The bulk of Americans will understand this."*—EDWARD ALSWORTH ROSS.

*"America is doing a wonderful work, in many quarters, to bring about a solution of the labor problem in peace and by means of fairness, co-operation and a regard of moral values."*—CHARLES CESTRE of the Sorbonne who completed in October a study of industrial conditions throughout the United States.

*"It is to be hoped that out of the extreme suffering and sacrifice that this war imposes there may arise supreme wisdom among the nations. Either there will be a new day or a darker night. We owe it to ourselves, to humanity and to the world to lend our best efforts and to make our fullest*

*contribution to that reconstruction which must come."*—OSCAR S. STRAUS.

*"We stand in a position to be of the greatest usefulness to the world, and if we are useful we need not worry about our recompense."*—FRANK A. VANDERLIP.

*"It is but dawn in the new day of spiritual awakening. Let us touch those who still sleeping wear the joy of youth upon their faces and say, with the prophet of old: 'Arise, shine; for the light is come, and the glory of the Lord is risen upon thee.'"*—WILLIAM ALLEN WHITE.

*"America has moved out of its old isolation into the realm of world affairs. The program of the Church must match the policy of the nation if the Church is to continue as a world force."*—S. EARL TAYLOR.

*"Only religion can kill war, for religion alone creates the new heart."*—HARRY EMERSON FOSDICK.

*"I do not know any way to create a moral passion in a free people except through the Church."*—HERBERT HOOVER.

*"We are at the beginning of an age in which it will be insisted that the same standards of conduct and of responsibility for wrong done shall be observed among nations and their Governments that are observed among the individual citizens of civilized states."*—The President's Message of April 2, 1917.

*"There is a new, awakened world. It is not ahead of us, but around us."*—To The French Senate, January 20, 1919.

*"We cannot hastily and overnight revolutionize all the processes of our economic life. We shall not attempt to do so. These are days of deep excitement and of extravagant speech; but with us these are things of the surface. Everyone who is in real touch with the silent masses of our great people knows that the old strong fibre and steady self-control are still there. . . . I am serenely confident that they will readily find themselves, no matter what the circumstances."*—  
Address to Congress, August 8, 1919.

*"The swing of our destiny has at last become as wide as the horizon."*

[The last four selections from the addresses of Woodrow Wilson would seem a fitting climax to the series of quotations reflecting American opinion.]









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